A PROGRAMME FOR PROGRESS

By the same Author:

WHAT ARE WE TO DO?

THE THEORY AND PRACTICE OF SOCIALISM

THE NATURE OF CAPITALIST CRISIS

THE MENACE OF FASCISM

THE COMING STRUGGLE FOR POWER

A PROGRAMME FOR PROGRESS

by

JOHN STRACHEY

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PREFACE

THE RETURN of war, for the second time within a generation, is a formal declaration of bankruptcy on the part of capitalist society. Never again must we live in this way. For the penalty is, simply, death. It is now the indispensable task of humanity to build a socialist system of production for use, based on the social ownership of the means of production. For such an economic system, it is now certain, will alone enable us to live.

I have made, in a series of books and pamphlets, what contribution I could to bringing home the necessity of socialism to the British and American peoples. That necessity is becoming more and more pressing. It may be that in the immediate future we shall have the opportunity to build a socialist Britain as a part of a socialist Europe. It may be that the rulers of Britain, France and Germany will blindly persist in their attempt to achieve world domination until they have inflicted such unbearable conditions on their peoples that their social and economic system will be forthwith swept away. In that event the British Labour movement will be so tempered by the hammer of war as rapidly to acquire both the will and the strength to expropriate the owners of the mines, factories, banks, and fields of Britain, to demolish the existing State, with all its apparatus of power, and to build up a socialist economic system, together with its appropriate political and social superstructure. This revolution will happen if the rulers of Europe drive their peoples into an ever-extending, ever more horrible, and seemingly endless war.

If that happens, the economic problems of a transitional period discussed in this book will have no relevance. It may be, however, that this is not the immediate prospect for Britain, and such a prospect is less probable for America. If the rulers of Britain are forced by the people to break off the war sooner rather than later; if, even in the event of

their succeeding in striking down their present rival, German Imperialism, we prevent them from waging a second war against the Soviet Union, their ultimate antagonist, peace may return with the balance of political power in Britain of such a character that the workers will not have the opportunity to take full power. But even in that event great opportunities will arise for the British people. The sheer impossibility of carrying on the economic life of the country in the old way, which peace would immediately reveal, will necessitate drastic economic changes.

The question with which this book deals is this. How, precisely and practically, is the struggle for a better social and economic order—for socialism—to be carried on in such a situation?

Carried on effectively that struggle must be. For, unless it is, we shall not free ourselves from that unrestricted, monopolistic, finance capitalism which has now twice in our time brought death to the people of Britain and of Europe. The political forms, methods, and combinations which the popular forces must use in such a situation cannot be exactly envisaged in advance. We can be certain only that we shall fail if we do not unite. At all costs we must unite to put into office a government which is the representative of the people instead of the oligarchy of imperialist finance capital. Such a government, even though it were genuinely democratic and progressive in character, would inevitably contain, or be in co-operation with, forces and parties which were not socialist. Such a government must, indeed, be based on the Labour movement. But sections of the Labour movement itself (*e.g.* the Co-operative Section and to some extent the Trade Union section) may not even then feel the need for the immediate and complete abolition of capitalism.

This book seeks to give one part of the answer to the question of how, in the above circumstances, the struggle can be successfully carried on. It does so by developing an economic programme which would enable such a government to raise the standard of life of the British people during such a period of transition. It is a programme

which provides the indispensable economic basis for an anti-imperialist, genuinely democratic peace for Britain. It is a programme which is not socialism, and which, therefore, it seems to me, many of those who are not socialists can support. At the same time, I must avow at the outset my own conviction that such a programme as this must lead to socialism.

There is, of course, nothing in the least novel in putting forward "an immediate programme" to meet a given situation in which something must be done, but in which it is not possible forthwith to abolish capitalism and establish socialism. So obvious is it that this situation is likely to arise that each of the opposition parties in Britain have issued programmes to deal with it. The purpose of this book is not so much to add another to these "immediate programmes" as to consider the basic economic issues raised by the application of all such programmes.

I have become more and more profoundly impressed with both the urgency and the difficulty of such a task. I have come to believe that the demands for higher wages, shorter hours, better working conditions, improved social services, coupled with the national ownership, or control, or reorganisation, of certain industries, while indispensable, are not in themselves enough. The international experience of the decade before this war, partly that of the two Labour Governments in Britain, but even more the differing records of various progressive governments in other parts of the world, from that of M. Blum in France, to that of Mr. Roosevelt in America, together with certain evidence to be derived from the smaller countries, such as New Zealand and Sweden, has driven me to this conclusion. I have become convinced that an attempt at what might be called the piece-meal reform of capitalism must fail. If the responsibility and risk of holding office are undertaken by the progressive forces in conditions in which they cannot attempt the total and immediate abolition of capitalism and the capitalist State, they must, on pain of irreparable discredit, attempt to develop what may perhaps be described as a transitional, modified, controlled economy.

If they attempt, that is to say, to raise wages here, to extend social services there, to nationalise this industry, or to reorganise that industry, all without a plan—without, that is to say, taking control of those central, directing levers which regulate the speed and rhythm of our economic systems—certain disaster awaits them.

But can such a system as capitalism be subjected to any measure even of social control? The task is immensely difficult. The indispensable thing is to achieve at any rate such a measure of control as will keep the wheels of production turning while the rest of the programme of social advance is being enacted. For it was, above all, because of its failure to overcome the opposition to the taking of such control that M. Blum's Government in France was destroyed, and it is, largely, because of the attempt which Mr. Roosevelt's Government has made to take such control that it has survived. It is clear that the main possibility of achieving any measure of social control over the quantity of production, and so employment, in a capitalist society, lies in the financial sphere.

The pages which follow were completed before September 3rd, 1939. I have left them as they are. The reader will notice, however, that almost every one of the controls over economic life herein proposed, and a great many which are not proposed, have already been enacted. These controls have been enacted by the representatives of big business and big finance, and they have been enacted for the destructive purpose of waging war. But they can be used—*if they are in the hands of progressive forces*—for the beneficent purpose of continuously raising the standard of life of the people. For nothing is more certain than that after this war there can be no return to the traditional, uncontrolled, form of capitalism. If any government attempted that, the certain result would be the total disorganisation of production—the reappearance of mass unemployment on a scale unparalleled. There can be no general decontrol after this war. The only real issue before us is, who is to do the controlling? What social forces are to lay their hands upon the levers of control which the exigencies, first

of preparation for war, and then of war itself, have driven the rulers of Britain to create? The horse is bitted and bridled. Who is to hold the reins? Who is to be the rider?

I ask those socialists who are, rightly, profoundly sceptical of the ultimate practicability of any programme short of full socialism, to bear the following consideration in mind. Is it not very important for the whole future of Europe, if not of the world, that a progressive government shall maintain itself in Britain during or immediately after the end of the present war? Is it not also clear that no such government can exist unless it finds a way to use the productive resourses of Britain to raise the standard of life of the people; unless, to put it in human terms, it can prevent millions of unemployed from being thrown on to the streets of Britain? Is it not, therefore, of decisive importance that we should all become precisely clear as to the way in which this immensely difficult, but crucial, job can be tackled?

Almost the whole of the rest of this book is concerned with political economy rather than with "purely" political questions. For it is a problem of practical economics—or political economy, to use the older and better term—which has to be solved. But I ask the reader constantly to bear in mind the political situation, as defined in this preface, against the development of which the book is written.

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PART I

A WAY FORWARD

Chapter I: WHAT WAS WRONG?

Between The Two Wars

The decisive characteristic of the economic situation which persisted during the whole of the period between the two wars was the existence of mass unemployment. Never during the whole of this period were the British people able to use even approximately the whole of the men, the machines, or the other productive resources of the community. The pall of stagnation which hung over the activities of the community fluctuated, indeed, in intensity. In the troughs of the depressions there were from two and a half to three million unemployed amongst the insured workers. At the peak points of the booms there were still a million.

As the twenty years wore on, public opinion began to accustom itself to the situation, and to forget what it meant both to the unemployed millions themselves, and to the whole community in terms of the total waste of potentially life-giving productive resources. At the beginning of the period we were not so numbed. In 1923, for example, Lord Baldwin, then Mr. Baldwin, explaining the reasons which prompted him to seek a general election, said that so long as there were more than one million unemployed in Britain no one could afford to think of anything else. After that date there was no month in which the number of the registered unemployed fell to under one million. And there were whole years when it greatly exceeded two millions.

Many people thought of many other things than unemployment during the twenty years of the peace. But experience, on the whole, confirmed the view that unemployment was the worst of all the ills from which the British people suffered. For unemployment both involves those other scourges—poverty, insecurity, overwork, bad housing —from which the mass of the British people have never

yet been free, and adds to them its own special torture of frustration. It is impossible to measure what is felt by men who are prevented from supplying their families by their own efforts; who are prevented, we must say simply, from living, in any true or full sense; who are condemned to exist in the physical and mental misery of imposed idleness. A distinguished statistician, Mr. Jurgen Kuczynski, has computed, however, what the British wage-earners lost in income through unemployment between 1930 and 1937. His figures are as follows:

	£. Millions
1931	355
1932	365
1933	345
1934	300
1935	295
1936	270
1937	245
Total	2,175

Mr. Kuczynski further computes that this represented a loss to the British wage-earners of the following percentages of their income:

1931	25 per cent.
1932	27 "
1933	25 "
1934	21 "
1935	19 "
1936	16 "
1937	13 " [1]

Finally, in words which I cannot better, he suggests what the absence of unemployment during these years would have meant to the British people:

[1] The reader will notice that the period 1930–37 is a very fair one to take as representing the average effect of unemployment upon the lives of the British people. For it includes some of the worst (1931–32) and some of the best (1936–37) years experienced: it covers, that is to say, a whole trade cycle, including both boom and slump.

"It is difficult to imagine what it would have meant to the working class if, during the last seven years, its income and purchasing power had been by about one-fifth higher than it actually has been. For millions it would have made all the difference between going hungry and being adequately fed. For millions of others it would have made all the difference between being adequately fed and having a meal which was not only sufficient but also gave pleasure. For millions it would have meant another child, books, better health, less anguish and disquiet—for half the population of these Isles it would have meant an infinitely better life than they have had."

This situation of the British people was the direct effect of the inability of private enterprise, motivated by the expectation of profit, to keep the wheels of production turning. It was this failure, much more even than the extremes of inequality and exploitation which capitalism must always produce, which devastated the life of the mass of the British people during the twenty years of peace. Chronic economic stagnation poisons the life of the whole of society. It undermines the security of the whole working population, contracts every avenue of success and advancement—in a word, it takes all hope and buoyancy out of life. So dreadful are the consequences of this paralysing hand that it is an uncontested fact that men who have been unemployed for years together are driven, in their despair, to believe that they would prefer the conditions of intensive war preparations—and even, grim as the words are, war itself—to the agony of rotting in the compulsory idleness of peace under contemporary capitalism.

Let us make no mistake about it, this is the situation to which we are condemned to return, as soon as we need no longer devote all our energies to war, if the same social and political forces remain dominant in Britain as ruled us between 1918 *and* 1939. *Indeed, the reader will find the view expressed in the later sections of this book that this is actually the best prospect which is open if "big business"—or rather "big finance"—continues to rule us. For*

it is possible, as the German example has shown, for our present rulers to re-employ the people; but that involves the end of democracy and the methods and the objectives of Fascism. In that event the second European war would prove but a light prelude to the third—and to an unending series.

For the truth is that capitalist rule presents us to-day with the intolerable alternatives of working and living in preparation for war and in war itself, or of rotting in peace. The sole escape is for all the progressive popular forces to find both a way of ending that rule and of taking the community, under their leadership, along the road of economic progress. This book is concerned with the second of these tasks. For the war warns us that it is our incomparably urgent task to bring the progressive forces back to power in Britain. But what are they to do then? They must, first and foremost, and whatever else they do, or do not do, overcome the stagnation which besets any society such as ours: or they will perish.

Arms and Unemployment

It may be that certain readers will object that the above argument leaves one important fact out of account. It may be said that while unemployment was incontestably the great problem for most of the twenty years of peace, yet the unemployment problem had, as a matter of fact, been solved just before the return of war, and that consequently we need no longer worry about it. This line of thought was, for example, expressed by the President of the Board of Trade, Mr. Oliver Stanley, during the spring of 1939. Mr. Stanley then asserted that within twelve months the unemployment problem would have ceased to exist; and he produced facts and figures to support his argument.

The reason for the appearance of this unique prospect was not in dispute. The British Government had begun to spend at the rate of over £700 million a year on armaments. The British people, we were assured, would soon find employment on making these armaments!

This assertion that the torturing problem of unemploy-

ment had been solved by the rearmament programme was one of the most audacious claims that was ever put before the British people. Let us assume that the figure of unemployment would, if war had not come, have sunk to something between half a million and a million. Would this have marked the solution of the problem? It would only have done so upon the remarkable assumption that the British people were to engage the very cream of their productive effort, for ever, upon making armaments. Those who talked to us about the unemployment problem having been solved by the armament programme were implying nothing less than this. But no sane man or woman can entertain such a prospect for one moment. Was it not, and is it not still, perfectly clear that a time must come when we shall not, and cannot, continue to direct our productive effort to armament-building? What will happen then? What will happen, if nothing is done about it, is all too sure. General unemployment will re-descend again upon the British people, as the worst of all the ills from which they suffer. For these reasons it was, to be plain-spoken, an insult to the British people to suggest that the armament programme had solved the unemployment problem.

All this is far from saying, however, that the experience of the 1936–39 armament programme, and the effect which that programme has had upon unemployment, have nothing to teach us. On the contrary, the armament programme has proved one all-important fact to us. It has proved beyond argument that the unemployed can be enabled to work. It has proved that this torture, which for almost twenty years had been endured by the British people, and which successive governments had never ceased to assure us was some terrible "act of God"—some "economic blizzard" blowing from none knew where, which none could prevail against or prevent—can certainly be ended. For the magnitude of the effect upon the level of employment, and of economic activity generally, which the armament programme had, is still under-, rather than over-, estimated.

The seven years from 1930 to 1937, taken in Mr. Kuczynski's calculation quoted above, included two years (1931–32) of extreme depression, and five of ever-increasing recovery. But that recovery culminated in the first half of 1937. In the autumn of that year, in both Britain and America, a new slump occurred. Unemployment rose by three-quarters of a million in Britain.[1] In America it rose by four million in nine months. All the indices show that the new slump was, in its opening phase, not merely as severe as, but much more severe than, the "great" slump of 1929. In Britain, however, during the second half of 1938 and the first half of 1939, the sharply downward trend of economic activity was reversed. The slump was stopped in mid career. At first the unemployment figures began to level off; then actually to fall again. By the summer of 1939 they were already considerably lower than they had been a year before. And the authorities foresaw the virtual disappearance of unemployment within twelve months!

Nor, I repeat, was there the slightest doubt or difference of opinion as to the cause of this unprecedented event. It was a direct consequence of the fact that the British Government was spending at the rate of over £700 million a year on armaments.[2] So now we know that the thing can be done: for it was done. It was done because those who rule this country wanted armaments so much as to cause them to override other considerations. It is certain that it could also be done if this country came to be ruled by men who desired to enable the British people to work at the tasks of peace, sufficiently to override other considerations. If it is possible for us to work in order to kill, it is also possible for us to work in order to live. The whole

[1] 1,403,506 for September 1937 was the low point. 2,133,809 for February 1939 the high. By August 1939 the figure was down to 1,294,805.

[2] As we shall see in Part II, in America, where until June 1938 no comparable expenditure was undertaken by the Government, and after that date Government expenditure, though on much better objects, remained much lower than in Britain (in proportion to the size of the two economies), the 1937 slump continued to descend catastrophically for nine months, and has now been checked rather than reversed.

of the rest of this book is devoted to this inquiry: what is it that must be done in order that it should be possible for us to work and live in and for peace? Our first task must clearly be one of diagnosis. We must establish clearly what it was that prevented a fluctuating, but always considerable, proportion of us from working; and so prevented us all from fully living, during the twenty years between the two wars. For at bottom it was this deadly something which, by poisoning the peace, made the new war.

Chapter II: PROFIT AND WAGES

The Declining Rate of Profit

There is to-day a wider measure of agreement than has ever existed before as to the basic cause of the stagnation of capitalist, profit-making, economic systems such as ours. They stagnate because in such systems neither men nor machines nor anything else are used unless their use will be adequately profitable. And the rate of profit to be obtained from operating the labour, factories, mines, raw-material resources, etc., etc., of the country is always tending, other things being equal, to decline. When it declines too far the factors of production are not used, and we rot in idleness.

Now the cause of this tendency of the rate of profit to decline is precisely the accumulation of more and more of "the means of production".[1] There are several different ways of demonstrating why this must be so. The only explanation which is finally adequate, in my view, is the Marxist. I described this explanation in a series of chapters in my former book, *The Nature of Capitalist Crisis*, and it would be quite out of place to attempt to repeat that description here. Moreover, the existence of this tendency, as a tendency, is undisputed by all schools of economic thought whatsoever. Hitherto, however, almost all contemporary economists, except Marxists, have considered that this tendency was quite unimportant. For, they explained, in real life this admitted tendency for the rate of profit to decline as capital accumulates, *if all the other factors in the situation remained the same*, was a mere empty abstraction. For the other factors in the situation never did remain equal. Most non-Marxist economists of the

[1] "The means of production" is an economists' term, meaning the factories, mines, machines, etc., etc. I use the term "factors of production" when I include with these labour, "means of production" when I do not.

last two or three generations have been so convinced of this that they have felt that the tendency was not worth talking about, and, it is hardly too much to say, forgot about its existence.

On the other hand, Marxist economists have always strongly stressed the importance of this tendency, the description of which forms the core of the third volume of *Capital*. It is, therefore, of interest that a newly emerging school of capitalist economists are now urgently recommending this tendency to our reconsideration. The leader of this school is Mr. John Maynard Keynes, and his re-emphasis of the tendency of the rate of profit to decline as, it is not too much to say, the central factor in the economic situation, is contained in his recent work *The General Theory of Employment, Interest and Money* (Macmillan, 1936, 5*s*.).[1]

In a striking passage Mr. Keynes compares the predicament of modern, highly developed capitalist communities such as Britain and America with that of King Midas in the myth. Just as Midas starved because his wish that everything which he touched should turn to gold had been granted, so modern capitalisms cannot thrive just because they have already built such a full equipment of means of production that to build more, or even to operate some of

[1] Mr. Keynes states the above proposition as to the tendency of the rate of profit to fall repeatedly throughout his book. He puts it, however, in terms which will be unfamiliar to most readers. He introduces the conception of what he calls "the marginal efficiency of capital". For our general purposes this is equivalent to the rate of profit. What Mr. Keynes means by the marginal efficiency of capital is the net yield which the next capital good to be produced will give to the entrepreneur who produces it. If this yield is insufficient, then the capital good in question will not be built. (The terms "capital good" and "producer's good" are synonyms for anything—such as a crane, a lathe, or a new factory as a whole—which cannot be consumed and the use of which is to help to produce consumer's goods, such as food, clothes, housing.)

He puts this point in detail in Chapter 16 of his book, entitled "Sundry Observations on the Nature of Capital". "If", he writes, "capital becomes less scarce, the excess yield will diminish, without its having become less productive—at least in the physical sense" (p. 213). He describes the "awkward possibilities of an increasing stock of wealth" (p. 219); and writes that "capital has to be kept scarce enough in the long period to have a marginal efficiency" sufficient to induce entrepreneurs to go on producing more capital goods.

the existing factories, mines, etc., would be insufficiently profitable. It is, thus, the very accumulation of capital itself which becomes a menace to any such economic system as capitalism, which depends upon the expectation of profit to make the wheels go round. Mr. Keynes puts it this way:

> "It follows that of two equal communities, having the same technique but different stocks of capital, the community with the smaller stock of capital may be able for the time to enjoy a higher standard of life than the community with the larger stock; though when the poorer community has caught up the richer—as, presumably, it eventually will—then both alike will suffer the fate of Midas" (p. 219).

There is, then, an increasing degree of agreement that the tendency of the rate of profit to fall is the root cause of the present stagnation of capitalist economies. Mr. Keynes, indeed, fails to suggest that his strong emphasis on this tendency is a restoration of an old tradition of economic theory. But such it is, for it was a recognition of this tendency on the part of Ricardo which made Marx regard him as one of the most penetrating intellects which had ever devoted themselves to the study of economics.[1] Marx has a famous passage in the third volume of *Capital* (pp. 304–05) in which he describes Ricardo's alarmed appreciation of this fact:

> "The rate of profit is the compelling power of capitalist production, and only such things are produced as yield a profit. Hence the fright of the English economists over the decline of the rate of profit. That the bare possibility of such a thing should worry Ricardo, shows his profound understanding of the conditions of capitalist production. . . . What worries Ricardo is the fact that

[1] It would be interesting to trace the gradual failing of attention in the minds of the economists to the question of the tendency of the rate of profit to fall. John Stuart Mill was still laying fairly heavy emphasis upon it. See Book IV, Chapters 4 and 5, of his *Principles*, for example, on "the tendency of profits to a minimum".

the rate of profit, the stimulating principle of capitalist production, the fundamental premise and driving force of accumulation, should be endangered by the development of production itself."

The central chapters of Vol. III of *Capital* are devoted to an exhaustive consideration of the effects of the tendency of the rate of profit to fall. Marx devotes a detailed chapter to the counter-tendencies which partly offset the general drift downwards of the rate of profit. But he sets this basic tendency squarely in the centre of his picture. As he emphasises in the passage quoted above, it is the accumulation of capital itself which, by making capital more plentiful, tends to make each unit of it yield a lower profit. And yet the accumulation of capital is inescapably the very end and purpose of the system, which can hardly be tampered with without bringing the wheels of capitalism to a stop. It is for this reason that the system is continually tending to produce conditions in which it can no longer function.[1]

Economic opinion is, then, more and more coming to agree that it is the decline in the rate of profit, encountering for the first time, as we shall describe in a moment, no adequate counteracting tendencies, which produces the

[1] The remarkable similarity of the conclusions reached by Mr. Keynes with this conception can be seen from the following unpublished statement by one of his ablest supporters, Mrs. Joan Robinson, a statement which I quote by permission:

> "The fundamental evil of the system is that the accumulation of capital is always tending to bring itself to an end, while at the same time generating the need for a greater rate of investment to keep up employment."

The primary theoretical importance of Mr. Keynes's new book is that he has brought this conception back into the centre of economic thought.

It is this which has earned him the opposition of many leading figures of the older generation of British economists. Professor Pigou, for example, in a review of Mr. Keynes's book which can only be described as furious (*Economica*, May 1936), tells his readers that Mr. Keynes is attempting to frighten them with "a vision of the day of judgment", when the rate of profit will have declined to an impossible extent. Professor Pigou pooh-poohs Mr. Keynes's prognosis as wholly visionary. "We have watched", he writes, "an artist firing arrows at the moon."

chronic stagnation from which we suffer. But if that stagnation is now chronic, it is by no means unvarying in degree. On the contrary, it is notorious that it manifests itself in the periodic, and more or less rhythmical, oscillations of boom and slump. In the recovery, production gradually becomes relatively profitable, only to become suddenly unprofitable again in the next slump. It is no part of the purpose of this book to investigate the causes which produce this extreme unevenness in the onset of stagnation. To-day, however, in both Britain and America, the highest point of recovery still leaves substantial factors of production, including millions of workers, unemployed. Can there, therefore, be any further doubt that we are confronted with a deep tendency to permanent stagnation, and that the varying authorities which we have quoted are correct in diagnosing the declining rate of profit as the essential cause?

The Counteracting Tendencies

What, however, are the "other factors" which tend to offset the fall in the rate of profit? There are three. First, there is technical change. Second, there is the opening of new markets abroad. Third, there is the growth of population. All these three factors tend to sustain the rate of profit, be it observed, by increasing the demand for capital. If new inventions are made, then it will become profitable to invest capital in applying them. If new markets are opened up overseas, then new capital will find a profitable outlet in producing the goods and services with which these new markets are to be supplied. If the population is growing, new supplies of cheap labour will be always present and new capital will be needed to supply the increasing population with goods and services.

If these three other factors are operating strongly and simultaneously, it is clearly possible that the demand for capital will grow as rapidly as the supply of capital is accumulating. In that case (if the rate of wages and the rate of interest remain the same) there will be no tendency

for the rate of return which capital can command to decline. Therefore, the practical question is: How strongly are these counteracting tendencies operating to-day? Let us consider them in turn.

Many economists (Professor Pigou and Mr. J. R. Hicks, for instance) stress heavily the possibility that a rapid growth of technical invention may be expected to provide a powerful sustaining influence to the rate of profit (see, for instance, Mr. Hicks in the *Economic Journal* for June 1936, and Professor Pigou in the review quoted above). But the effect of technical progress upon the rate of profit is far less simple than these writers appear to imply. Rapid technical progress, such as that which (see note, p. 307) is occurring in Britain to-day, has a complex and contradictory effect upon the rate of profit. It tends to sustain it in the short run, but to make its sustenance more and more difficult in the long run. In Mrs. Robinson's words (quoted p. 25 above, note) " it generates the need for a greater rate of investment to keep up employment ", and in Marx's words " it overcomes these barriers (the barriers created by the falling rate of profit) but it overcomes them only by means which place the same barriers in its way in a more formidable size ".

There is no doubt that the major inventions of the last century—the railway, the production of steel, etc.—powerfully sustained the rate of profits. And at the turn of the century the electrical and chemical industries (and later the automobile industry) appeared at the right moment to prevent that threatening decline in the rate of profit which occurred in both Britain and America at the end of the last century from having decisive social effects.

Such were the initial effects of these great, industry-creating, inventions. But their more permanent, long-run, effects—and these are the ones which we are experiencing now—are exactly opposite. The fact that vast masses of capital have found, *in the past*, profitable embodiment in the railways, steel works, electrical, chemical, and automobile industries of Britain and America, far from now sustaining the rate of profit, is *to-day* a most powerful factor

pushing that rate downwards. For these vast industries—if they are to be worked at all—give off an enormous volume of profit, which must seek profitable investment as new capital. While they were being built, these new industries sustained the rate of profit by providing a major field for investment for new capital. Now that they have been built, they as powerfully depress it by providing a constant stream of new capital seeking investment.

In order now to have an equal effect in sustaining the rate of profit, the appearance of a whole series of new industries capable of absorbing a much larger volume of new capital than did the great industries which have been established in the past half-century would be needed. Is there any sign of the development of a whole series of new industries capable of absorbing profitably vast masses of capital? It is difficult to mention one industry of this type, except perhaps the aviation industry. And the aviation industry does not seem capable of absorbing profitably anything like the masses of capital which were absorbed by the railways, the automobile, the electrical, or the chemical industries. Our epoch is, however, one of extremely rapid technical development. Hence it may be dangerous to assume that some major new invention may not force its way through our otherwise stagnating social environment and once again set up an important demand for new capital. All we can say is that there is little sign of any such development at the moment.

Moreover, it would give a very one-sided and misleading picture of the development of capitalism to suggest that the opportune appearance of such major, industry-creating, inventions as railways or automobiles have been, in the past, the only, or even the main, factor in sustaining the rate of profit. Another, and certainly indispensable, support was afforded by the geographical extension of capitalism over the face of the earth from its original home in Western Europe and North America. The process is usually termed Imperialism; it is the process of the industrialisation, by means of the export of capital, of the colonies and semi-colonies of the Great Powers. It provided

a demand for capital which sustained the rate of profit to at least as great a degree as did the emergence of the new industries.[1] Both of these processes, which might be called respectively the extensive and the intensive development of capitalism, were almost certainly necessary to the maintenance of a rate of profit sufficiently high to make the system work.

In addition to, and in association with, them there occurred within the major capitalist States themselves by far the most rapid rise in the population which the world had ever known. Many economists believe that this factor in the situation is gravely under-estimated. Mr. Hicks, for example (*Economic Journal*, June 1936) lays heavy emphasis on this point:

> "Consider the situation which is likely to arise when the population of this country is declining, and the population of most of those countries with which she is in close trading connection are stationary or tending to decline. A time will come, so it already seems likely, when this tendency, and its probable future continuance, will not be the secret only of a few economists but will be fully realised by the mass of the public. In these circumstances, the incentive to construct houses, ships, factories, all sorts of capital equipment will be depressed by the anticipation that capital is wearing out and population dying off at convergent rates. Investment will proceed only with great difficulty, and employment will be low, in spite of the fact that population may have already declined in the past."

The Profit Motive Fails

It is the peculiar characteristic of the present juncture that the strength of each of these three fundamental motive

[1] Mill, in the chapter of the *Principles* mentioned above, describes the effect of successful Imperialist expansion upon the rate of profit very nicely: "We have now seen . . . that unless a considerable portion of the annual increase of capital were either periodically destroyed or exported for foreign investment, the country would speedily attain the point at which further investment would cease" (Book IV, Ch. 5).

forces for sustaining the rate of profit, and with it capitalist production itself, is declining simultaneously. The world is almost full; it has almost all become the colony of one or other capitalist empire, and has already been bloodily repartitioned for the first time. No new, major, capital-absorbing industry is emerging. The populations of the major capitalist States are ceasing to grow. Thus the demand for new capital—for new means of production, that is to say—cannot but tend to decline. At the same time any approach to the full operation of the factors of production causes supplies of capital to accumulate on an unprecedented scale. Thus the rate of profit tends to fall both because there is more capital seeking investment and also because there is less opportunity for profitable investment.

These are the circumstances which account for the fact that to-day the innate tendency of the rate of profit to decline as capital accumulates fails to meet those counteracting factors which have hitherto largely, or wholly, offset it. Most economists concentrate their attention upon the question of whether or not these counteracting tendencies are becoming weaker, assuming, more or less tacitly, the basic tendency of the rate of profit to fall in the absence of such counteraction. But this gives a distorted view of the whole question, which can only be understood if the falling tendency of the rate of profit itself is put squarely in the centre of the picture. In this chapter no more has been attempted than to state the fact of the declining rate of profit and to indicate in the broadest and most general way the causes of this decline. This is the basic postulate from which our argument proceeds. For it is this decline which creates the problem of chronically unused factors of production; it is this decline which creates the fatal and terrible stagnation which hangs over the capitalist world, a stagnation which that world knows no way of dispelling but to direct the energies of mankind to the preparation of slaughter, and then to slaughter itself.

Let us not suppose for one moment, however, that the present unchecked decline in the demand for new capital

in relation to its supply, and the consequent fall in the rate of profit, is some irremediable curse which has fallen on the human race. On the contrary, this very development records man's coming of age as a large-scale producer. It means that at last we can progressively and rapidly raise our standard of life. But bitter experience shows us that for this purpose we cannot rely upon the motive of profit-making to ensure that our productive resources are used. So long as we do so our marvellous new productive powers result, not in the vast increase in the supply of consumers' goods and services which they make possible, but in idleness and poverty.[1]

This is what is wrong with our economic system. This is why it stagnates. This is why we, and the marvellous machines which we have built, rot and rust in idleness, whenever we are not galvanised for the death dance of war or war preparations. We are idle because it has become insufficiently profitable to let us produce. For in our kind of economic systems "only such things are produced as yield a profit". It is this condition which the progressive forces must at all costs overcome if they are to lead the community forward.

Cut Wages?

Capitalist opinion has always hitherto believed that there was a sovereign remedy for the tendency of the rate of profit to decline. If production is insufficiently profitable, and if sufficient new inventions, new foreign markets, and new fields of investment are not coming forward, then,

[1] We shall repeatedly make use of the term "consumers' goods and services," contrasting it with the term "producers'", or "capital goods and services". A consumers' good or service is simply anything you can consume—as, for example, a loaf of bread, a hair-cut, a suit of clothes, a permanent wave, a motor-car, or the attentions of the dentist. "Producers' goods and services" or "capital goods and services" are such things as the tractor which ploughed the field to grow the loaf of bread; the barber's chair on which we sat to have our hair cut (or waved); the factory that wove the cloth for our suit; the lathe that turned the crankshaft of our car, or the parts of the dentist's drill.

every capitalist spokesman, politician and economist has taught, there is one obvious thing to do: cut wages.

Mr. Keynes, for example, thus describes the attitude of the economists:

> " The classical school [he writes] agree that if mass unemployment exists this situation is due to an open or tacit agreement amongst workers not to work for less, and that if labour as a whole would agree to a reduction of money-wages, more employment would be forthcoming " (p. 8).
>
> " A classical economist may sympathise with labour in refusing to accept a cut in its money-wage, and he will admit that it may not be wise to make it to meet conditions which are temporary; but scientific integrity forces him to declare that this refusal is, nevertheless, at the bottom of the trouble " (*The General Theory*, p. 6).

Now there is no doubt that the initial, direct effect of a cut in wages will be to increase profits. A cut in wages directly reduces the costs of production, and so, other things being equal, must increase profits. But will a cut in wages leave other things equal? Cold doubts on this point have recently begun to assail some economists.

For (again in the absence of sufficient new outlets by way of applying inventions or supplying foreign markets) the only use for capital is to make and to sell at a profit things for the people at home to use and consume—to make and sell food and clothes and houses and the like. But the demand for such consumers' goods and services depends directly on the amount of money which gets into the hands of the population as a whole. Wages are to-day the essential way by which money can get into the hands of the whole non-capitalist population. Therefore, if you cut wages, you will inevitably reduce the demand for consumers' goods and services. And if you reduce the demand for consumers' goods and services, you will soon reduce the demand for capital with which to make them. If you reduce the demand for capital, then down will go the rate of profit!

This is the catch in cutting wages as the capitalists' sure and sovereign remedy for a falling rate of profit. Even in the past recovery has come, not because of the cuts in wages which have been imposed, but because of the general expansion of the system by way of the application of new, industry-creating, inventions, the growth of the population, and the opening up of foreign markets. Applied to a capitalist system which has passed this stage of general expansion, and which must depend on the power of its own population to buy and consume as its ultimate market, cutting wages is, even from the capitalists' own point of view, a self-defeating measure. It will tend to raise the rate of profit by cutting costs all right. But at the same time it will still further depress the rate of profit, and so intensify stagnation by cutting down the demand for consumers' goods and services, and so for capital with which to make them. What is gained on the swings is lost on the roundabouts.

There is nothing in the least new about this argument. It has been a commonplace of much liberal and unorthodox criticism of capitalist policy for the past fifty years. (Such criticism is above all associated with the name of Mr. J. A. Hobson.) These critics have taken an exactly opposite line to that adopted by what Mr. Keynes calls the "classical economists". They have said that what, obviously enough, was wrong was that the goods being produced could not be sold. Every slump saw an immense glut of unsalable goods and services. It was this inability to sell which drove down the rate of profit, often to much less than nothing, and inflicted ruinous losses on all producers. "Now", continued the "under-consumptionists", as these critics are often called, "the inability to sell is, all too clearly, not due to the fact that everybody's wants are satisfied. Therefore, it can only be due to the inability of the population to buy: to their lack of purchasing power. Put some more money into the pockets of the public, and you will soon be able to sell everything you produce, and all forms of production will become profitable again. For these reasons any idea of

cutting wages as a remedy for stagnation is suicidal. What you have got to do is to raise wages. Then you will increase demand, first for consumers' goods and services, and then for capital to make them with. All will be well again."

Here is, clearly, an argument which will appeal strongly to all working-class and progressive opinion. Here is something which is inherently far more rational and right-headed than the repugnant idea that the proper remedy for stagnation and glut is to cut down still further people's power to consume, in order to reduce costs and so increase profits. Yet we have surely only to state this under-consumptionist proposal to see that there is something wrong with it. We saw that cutting wages was no remedy because, although it reduced costs, it also reduced demand. It may be argued that, similarly, raising wages will itself be no remedy, for, though it will increase demand, it will also increase costs! So long as we think of stagnation and slump simply as a glut of goods and services which cannot be sold, raising wages, and so enabling people to buy more, seems the simple and sufficient remedy. But so soon as we remember that the way the inability to sell has actually caused the stagnation is by rendering more and more of production unprofitable, we see that any measure which increases costs will not work so long as production has to be carried on for profit. For by increasing costs it will tend to push down the rate of profit at least as much as it tends to raise it by increasing demand.

As a matter of fact, this argument is not correct in this very simple form. Another factor enters the picture—namely, the rising productivity of labour. This factor makes it possible to raise wages without reducing the amount of profit, though not without reducing the rate of profit. We go into this somewhat technical matter in the note to this chapter (p. 306). But the reader will find that the upshot of the whole matter is that, despite all qualifications, the simple, under-consumptionist proposal of curing slump, glut, and stagnation by raising wages and nothing else will not work, so long as production is carried on for the sake of profit.

The Division of the Product

Our conclusion must be, then, that it is not open to a system such as capitalism to sustain the rate of profit, and so avoid the fatal decline to stagnation, either by raising or by cutting wages.

Let us, briefly, repeat the argument, for it is crucial. If you raise wages, you will increase the demand for consumers' goods and services, and, consequentially, for capital, and so tend to keep the wheels turning by sustaining the rate of profit which capital can command. But you will also raise the costs of production and so directly depress the rate of profit which capital can command. If, on the other hand, you cut wages, you will reduce costs, and so directly increase the profitability of production. But you will also reduce the demand for consumers' goods and services and, consequentially, for capital with which to make them. Thus you will depress still farther the rate of profit which capital can command, and so tend to increase stagnation.

We are driven back upon our original proposition, that the rate of profit can only be sustained by our three "other factors"—namely, major new inventions, the opening up of foreign markets, and the growth of population. There is no escape from this conclusion unless a way can be found of increasing the purchasing power of the mass of the population without increasing the costs of production. It is indispensable to see that this is the nature of the problem, or dilemma, which stands in the way of conquering unemployment in capitalist societies.

In the last analysis, however, we have not, even now, adequately stated this problem, or dilemma. It is not, in its broadest aspects, a question of wages *versus* profits, or of costs *versus* demand. These are only particular aspects of the thing. The thing itself is a question of the division of the product of any capitalist economic system into two fundamentally distinct parts. One part goes, mainly in the form of wages, to the mass of the population. This part largely constitutes the costs of production. The

other part of the product goes to the owners of the means of production in the three forms of rent, interest, and profit. Now, under capitalism, production is, and must be, carried on *for the sake of this second part of the product.* Increase it at the expense of the first part, and you increase the incentive to produce. But if you do that, you decrease the share of the product going to the mass of the population, and so make the product still more difficult to sell. So, though you make production *more profitable*, you make it (in the absence of outside outlets) *less possible.* If, on the other hand, you raise the share of the product going to the mass of the population, you will make it more *possible* to sell the ultimate product, and so to produce. But you will make it less *profitable* to do so, and so tend to destroy the motive of present-day production. This is the rock upon which almost all schemes for conquering the stagnation of present-day capitalism have foundered.

In a former book, *The Nature of Capitalist Crisis*, I attempted to present this basic dilemma, or contradiction, of capitalism in considerable detail. I wrote:

> " Do we then argue that the 1929 slump was caused, not by an insufficiency of consumers' purchasing power, making it impossible for the capitalists to sell their products, but by an excess of consumers' purchasing power, making production unprofitable? We do not. To do so would be to fall into an equal and opposite error to that of the under-consumptionists. It is the nature of capitalism's present dilemma that consumers' demand may be *simultaneously* too low to provide a market, and too high to allow of profitable production. This is what Marx meant when he spoke of the contradictions of capitalism. To suggest, as do Professor Robbins and Dr. Hayek, that the slump was simply a collapse of profitability, and to imply therefore that it need never have taken place if only demand at the consumers' end had been sufficiently reduced—if only, in plain language wages had been sufficiently cut—is to ignore the most obvious characteristics of the slump, namely, the gigantic

glut of consumers' commodities. The Robbins-Hayek specific would itself have precipitated the crisis by still further contracting the ultimate market. . . .

"Capitalism is continually menaced by the Scylla of its periodic inability to sell its products, and by the Charybdis of a collapse of the profitability of production. The under-consumptionists see the rock but ignore the whirlpool."

Can We, and Should We?

The question is, can anything be done about this situation? Or, rather, there are two questions. First, can anything be done about it? and, second, should a labour or progressive government attempt to do anything about it? Already many readers will have been astonished to find in this chapter an apparent preoccupation with whether or not particular measures will cause the rate of profit to fall. What on earth, they will be saying, does it matter to us if the rate of profit be made to fall farther than ever? That is something which the capitalists must worry about. For our part that is something which we should like to see happen and which, indeed, we mean to make happen.

The objection is well taken. But I must ask these readers to suspend judgement until they see how our discussion develops. We shall go into this question in detail in the last chapter of this part (Chapter XII), when the reader has before him the programme which is being proposed for the attention of a progressive government. Here let me merely remind the reader of the fundamental premise from which this book is written—namely, that we are seeking an economic policy for a labour or progressive government which cannot expropriate the capitalists and organise a socialist economic system of production for use. In such circumstances the main part of production must still be carried on for profit. And if that is so, we are bound to concern ourselves with the rate of profit. For if that rate sinks too low, production will cease, and we and our

Government will be engulfed in the ensuing tidal wave of unemployment. It is for those reasons that we shall argue in Chapter XII that not merely must such a government refrain from doing things which will push the rate of profit down too low, but must actually, in certain circumstances, itself restore the rate of profit.

It is clear, however, that no such government could dream of attempting to restore profitability to production by the capitalist method of cutting wages. (Or, of course, by cutting social services and the other sources of income of the mass of the population.) Quite apart from the fact that, as we have seen, such a policy has become, in modern conditions, inherently self-defeating, the main effort of a labour or progressive government must be to raise wages and every other source of income for the mass of the population. But we have just seen that the effect of doing this is not so simple as the liberal under-consumptionists would have us believe. It will increase the demand for consumers' goods and services, and consequentially for capital, all right, and thus tend to relieve the stagnation. But at the same time it will directly increase costs, and so tend still further to intensify stagnation. To re-state our questions—Is there any way of preventing a labour or progressive government's indispensable task of increasing the real incomes of the mass of the population from raising costs, and so, by reducing the rate of profit still further, increasing stagnation and slump?

We shall find that there is such a way. In principle it lies in increasing the share of the mass of the population in the national product at the expense, not of profits, but of the other two subdivisions of the share of the product going to the owners of the means of production—namely, rent and interest. This possibility arises from the fact that capitalist production in the narrow sense of that term —capitalist production in the sense of the actual, physical production of goods and services—is carried on for the sake of profits, as distinct from rent and interest. In fact, for the particular firm the payment of rent and interest, far from being the thing for which production is carried

on, appears as an actual obstacle to production. Rent and interest are habitually reckoned as parts of the cost of production, which have to be paid before a profit—which is the aim and object of the whole business—can be achieved. Therefore, from the point of view of the particular firm, anything which *reduces* rent and interest lowers costs, increases profits, and so actually stimulates production. Hence, still looking at the matter from a narrow, balance-sheet point of view, a reduction of the rates of rent and interest will have an exactly opposite effect to the reduction of the rate of profit. While the latter will unavoidably weaken the motive force of capitalist production, the former will actually strengthen it.

Once, however, we look at things from the point of view of capitalist production as a whole, we see that this distinction no longer holds good to anything like the same extent. It is not true that capitalist production as a whole is carried on exclusively for the sake of profit: it is carried on for the sake of all that share of the product which goes to the owners of the means of production—for the sake of rent, interest, *and* profit. The rent and interest will, typically, go to different sections of the owning class from profits; they will go to the financiers and landlords, as opposed to the active entrepreneurs. But to-day the financiers and landlords play a dominating part in the whole of economic life, and are intertwined with the entrepreneurs. It would, then, be misleading to suggest that the extraction of rent and interest was not almost as important an end and object of production, if we look at the economic system as a whole, as are profits themselves. We begin to see that any programme such as the one to be herein developed, which turns on the possibility of combatting stagnation by increasing the workers' share at the expense of rent and interest, as opposed to profits, will be illusory unless it faces the necessity of making a decisive change in the central economic and political controls of society.

Unless, to be specific, the grip of what is usually called finance capital upon the economic system is broken,

and some form of public, non-profit-making, non-capitalist, financial mechanism substituted for it, all proposals of the kind which will be developed will prove quite unreal. We shall take up this central necessity in Chapter X, after we have seen what a programme of this type would be like and what it could do.

The whole problem, I repeat, only arises if we cannot forthwith get rid of capitalism, with its utter dependence upon the expectation of profit to keep the wheels of production turning. We shall see (in Chapter XXI especially) that if we could do that, and could build up a socialist system, with its direct motive of production for use, the very *problem of an increase in mass purchasing power tending to produce stagnation because it weakens the capitalists' expectations of profits, could not arise.* But, as was explained in the preface, the whole purpose of this book is to find some way of raising the national standard of life in conditions in which the total abolition of capitalism, as opposed to its modification, is not yet possible. Every progressive political party has a policy designed to meet this situation. In essentials, all such policies must, and do, consist in measures designed to increase mass purchasing power, for that is the only way to increase the national standard of life. In Chapter XII it will be argued that in the pursuance of that policy it is necessary, if it is impossible to abolish capitalism, to have regard to the necessities of that system. For, if not, the only result will be, not socialism, but deadlock; not the curing of stagnation, but its intensification to so appalling a degree that fatal discredit will fall on those responsible.

What we are out to find, then, are methods of doing that immensely desirable thing—namely, increasing mass purchasing power. But we are out to find ways and means of doing so which will not increase costs, and will not, therefore, produce as much stagnation in one way as they cure in another. The remaining chapters of this part are each devoted to a point in a co-ordinated economic programme which is designed for this purpose. Naturally no one supposes that some future British progressive govern-

ment, for example, is likely to carry out this exact programme. The real situation which will confront such a government is certain to be different from anything which we can now foresee. But what is asserted is that in all human probability the political and economic situation which will face us at the end of this war will be one which can be attacked successfully by these methods alone. And by far the best way to describe these methods—this whole approach—is by exemplifying them by particular and precise proposals.

(Readers who wish to notice some important qualifications to the very broad treatment of this chapter are particularly asked to see the note dealing with the question of wages and the productivity of labour on page 306.)

Chapter III: PUBLIC ENTERPRISE

We have analysed the causes of that stagnation which was so dreadful in peace that it drove us back to war. We have shown, moreover, why the old, familiar capitalist " cure " of cutting wages will only make matters worse. What can be done? What can be done within the terms of reference which we have laid down—namely, a situation in which the people are strong enough seriously to modify capitalism, but not to abolish it altogether?

The most obvious and direct of all the ways in which a government can combat stagnation and unemployment is for that government itself to set men to work. The demand for " public works " is accordingly one of the elementary demands always voiced by the popular forces whenever capitalism leaves a substantial part of the working population in idleness.

The objects of this chapter are as follows. First we must consider the economics of " public works "—or rather of a broader category of undertakings which may be called " public enterprise ". We shall consider whether, and if so in what conditions, the initiation of all sorts of public enterprises is onc of the measures of the type which we have decided to look for—namely, measures which will increase the purchasing power of the population, and so raise demand, without increasing, at any rate to the same extent, the costs of production. For only such measures, so long as capitalism exists, will not cause as much stagnation in one way as they cure in another.

After working out the economic effects of the promotion of public enterprises, we shall come to the question of what kinds of enterprises can be initiated.

" *The Multiplier* "

The employment of otherwise unemployed workers by the government *is* a measure which, if it is suitably financed,

will increase the purchasing power of the population without raising the costs of production. For the hitherto unemployed men will now have wages to spend, and the spending of those wages will directly increase demand. The school of economists of whom Mr. Keynes is the principal spokesman have made a detailed study of what will be the effect in combatting stagnation of the re-employment of men, either directly or indirectly, by the Government. Let us follow their argument for a moment, for it will enable us to see both the importance and the strict limitations of a programme of public enterprise, as a part of the general economic policy which we are seeking. These economists are not primarily interested in the character of the public works or enterprises to be initiated. What interests them is that the hitherto unemployed men shall be paid wages; that they shall spend those wages, and that, in so doing, they shall set other men to work, or, if the slump has not actually taken place, shall prevent other men from falling out of work. In a word, it is the distribution of purchasing power which a programme of public enterprise will effect, that matters.

In order to calculate what this effect will be, they have evolved the theory of what they call "the multiplier". This theory attempts to tell us how great will be the indirect effect upon employment of any given scheme of public investment at any given time and in any given country. It is suggested that if any given number of hitherto unemployed men—say, for example, 100,000—are put to work by the Government, whether on road-making, or house-building, it makes no matter, another group of men, numbering in many cases double as many as the first group, will get employment, because the first group will now have had money put into their pockets. They will spend this money, and the second group will get jobs producing and distributing the goods and services which the first group can now buy.

What are we to say of the theory of the multiplier? It is, of course, true that the amount of employment given by any new expenditure, or investment, on the part of the

Government is not restricted to the number employed. The repercussion of re-equipping these men with purchasing power must be favourable, must result in still other men finding employment also. It is valuable that this point has now had serious attention called to it. The question is, how many men will be employed indirectly by means of this process of economic repercussion? If we can discover this number, we can give a numerical value to the multiplier. We can say that for every man employed on a public works scheme, twice or thrice, or whatever is the number, will find employment by repercussion.

The size of the multiplier will, however, obviously depend on many local and temporary circumstances. It will depend, for example, on the size of the wage given to the men who are taken into employment in relation to the size of the unemployment relief they were receiving before. If, for instance, the Government took men into its direct employment at no higher wage than their unemployment relief payments, and did not allow anyone supplying raw materials, etc., to make any additional profits, the multiplier would be zero. For then there would be no increase in the distribution of purchasing power. It is only by the amount that the wage given exceeds unemployment relief that a new distribution of purchasing power will be effected. Again, the size of the multiplier depends on certain other complex considerations, such as the proportion of a country's production which is devoted to foreign trade, and the percentage of the national income which is currently spent and saved. Mr. Keynes does not himself attempt to give any figure for the multiplier for Great Britain at the moment. He quotes, however, some figures which seem to indicate that the multiplier for America between 1930 and 1935 was about 2·5. But he feels that these figures must be defective, and that the American multiplier, at any rate in the slump years, must have been higher. Mrs. Robinson, in her *Introduction to the Theory of Employment* (page 27) tells us that "in a period of depression, such as 1933 to 1935, in this country [Britain] the multiplier was round about 2". In other words, if, during those years, the Govern-

ment had itself employed 1,000,000 additional persons, 2,000,000 more would have found employment by repercussion, and the entire 3,000,000 workers at that time unemployed would have found work.

This theory of the multiplier will also enable us to understand why a slump may take on such catastrophic dimensions as did the slump of 1929–32 in America and, to a lesser extent, in Britain. Even the complete cessation of activity in the industries producing new means of production would hardly, in itself, have brought on the general paralysis of economic activity which struck the United States in the spring of 1933. Why was it, then, that the mere fact that, in 1929, the American entrepreneurs began to reduce the scale of their orders for new means of production had, in the end, this extraordinarily paralysing effect? It was, of course, because just as one extra man put on to work, producing means of production or public works will, if the multiplier is, say, 2, set two more men on to work producing the increased supply of consumers' goods which he can now buy, so one man thrown off the production of new means of production, or public works, will throw idle two more men who had been producing the things which he had been buying with his wages. In a word, there is a divisor as well as a multiplier at work in the economic system. And multiplier and divisor work whether enterprises are undertaken by private, profit-seeking, entrepreneurs, or by public authorities.

Useful and Useless Enterprises

Mr. Keynes and his associates have pushed their theory of the multiplier to such a point that it is hardly too much to say that they have lost all interest in what are to be the kinds of public enterprises which are to be undertaken. They do not really care whether the Government employs people directly itself, uses private contractors to do any particular job, or provides private firms with money at low rates of interest with which these firms (*e.g.*, railway companies) can then undertake works schemes. For them

all this is incidental. Naturally they would like the necessary public enterprise to be conducted in efficient and convenient forms, and they would prefer that the objects of the work were useful. They would prefer building houses to digging holes in the ground and filling them up again, for example. But Mr. Keynes, in particular, lays heavy stress on the view that, though useful work schemes are better than useless, useless work schemes are better than none. He expresses this view in a passage in his *General Theory* which has already, and justly, become famous:

> " . . . 'wasteful' loan expenditure may nevertheless enrich the community on balance. Pyramid-building, earthquakes, even wars may serve to increase wealth, if the education of our statesmen on the principles of the classical economics stands in the way of anything better.
>
> " It is curious how common sense, wriggling for an escape from absurd conclusions, has been apt to reach a preference for *wholly* 'wasteful' forms of loan expenditure rather than for *partly* 'wasteful' forms, which, because they are not wholly wasteful, tend to be judged on strict 'business' principles. For example, unemployment relief financed by loans is more readily accepted than the financing of improvements at a charge below the current rate of interest; whilst the form of digging holes in the ground known as gold-mining, which not only adds nothing whatever to the real wealth of the world, but involves the disutility of labour, is the most acceptable of all solutions.
>
> " If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coalmines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of *laissez-faire* to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment and, with the help of the repercussions, the real incomes of the community, and its capital wealth also, would probably become a good deal greater than

it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing."

(*The General Theory of Employment, Interest and Money*, p. 128.)

This is not only a brilliant and ironic passage, but it is one which expresses a vital element in Mr. Keynes's thought. Let us consider it with some care. In the first place, it is essential that we should not lose our heads amidst Mr. Keynes's paradoxes. Our first reaction is apt to be to challenge him to say how useless work of the type of digging holes in the ground and filling them up again can possibly enrich a community. This is undoubtedly, as we shall see, a healthy reaction, and in one sense it is a question which neither Mr. Keynes nor anyone else can answer. We must not for a moment allow him or anyone else to stifle our common-sense abhorrence of the idea of putting men onto useless work.

At the same time we must notice what is being compared to what. Mr. Keynes is comparing the present type of capitalist society, of which Great Britain is an example, with a "reformed" kind of capitalist society for which he is pleading. Now, our existing type of capitalist society habitually keeps anything up to 20 per cent. of its labour force totally idle and partially destitute. Mr. Keynes—and this, of course, is the interest of his book—almost alone among capitalist economists, fully admits the intolerable waste and irrationality of this. What he is saying is that it would be better than nothing if, instead of keeping 20 per cent. of our workers idle and destitute, we should put 10 per cent. of them onto digging holes in the ground and filling them up again, or searching for banknotes in bottles, for then the remaining 10 per cent. of the unemployed would be able to find useful work in supplying the increased volume of commodities which the 10 per cent. of bottle-diggers could now purchase, plus the increased volume of commodities which they themselves could now purchase. Can we, therefore, deny that Mr. Keynes is correct in saying

that the second type of capitalist community, which has put 10 per cent. of its labour force onto useless work, will be richer and less irrational than the existing type of capitalist community, which keeps 20 per cent. of its workers totally idle and destitute? It is clearly impossible to deny this.

In other words, existing capitalist society has become so irrational that even putting some of the unemployed onto useless work, if this is the only way to give them purchasing power, can improve it.[1] But, for reasons which will become apparent immediately, it is essential that we keep a tight hold on the nature of the comparison which Mr. Keynes is making. He is comparing two kinds of capitalist society, and is able to show that his proposed kind is in one respect less irrational than is the existing kind. But that must not for a moment intimidate us into admitting that it is rational to put men onto useless work. For on any other standard of comparison, Mr. Keynes's reformed type of capitalist society, in which 10 per cent. of the population is engaged, for instance, in digging up bottles filled with bank notes, is still grossly irrational. It is grossly irrational as compared, for example, with a capitalist society which puts 10 per cent. of its otherwise unemployed workers onto rebuilding its slums, or onto any other form of useful public enterprise. And it is more grossly irrational still as compared with a socialist society which puts its whole labour force directly onto the task of satisfying its population's basic wants in the order of their urgency.

The Resistance to Useful Works

If we look back at the end of the passage quoted above we see that Mr. Keynes agrees " that it would indeed be more sensible to build houses and the like; but if there are

[1] And this reveals the fact that for Mr. Keynes useless public works are simply an excuse for distributing purchasing power. Why not, then, dispense with the excuse, and simply distribute the money directly by means of simple gifts to the population at large? We discuss this question in succeeding chapters, and more concretely in Part II, in relation to American experience.

political and practical difficulties in the way of this the above would be better than nothing ". The emphasis in this passage should be on the words " political and practical difficulties ". For here we catch the implication that there are formidable political and practical difficulties in the way of public enterprise being devoted to house-building and the like; that, in general, there are difficulties in the way of public enterprise undertaking anything but useless kinds of work. And this implication is a correct one. There are formidable " political and practical difficulties " in the way, for instance, of a vast programme of house-building by public enterprise. There are, to be precise, the slum landlords. There is that whole ganglion of vested interests which in any capitalist society is based on the indirect form of the exploitation of the worker, represented by private enterprise house-building, rack-renting, the grabbing of rapidly appreciating urban site values, etc., etc. All these interests will fight tooth and nail to prevent any government in any capitalist society from abolishing its slums. And up to now they have fought on the whole successfully. (The power of these particular vested interests seems to be stronger in America even than in Britain.)

Moreover, this is only a special case of a general proposition. Indeed, it would be easier for a government to initiate a programme of house-building than it would be for it to find any other substantial amount of really useful work to set unemployed workers onto. For a certain breach in the monopoly of private enterprise in this field has already, in Britain at any rate, been made. The general principle involved is that all genuinely useful work in a capitalist society is the jealously guarded preserve of private enterprise. It is the monopoly right of the capitalists, individual and corporate, to provide, for profit, the rest of the population with such food, clothing, and shelter and, for that matter, entertainment, transport, etc., etc., as it gets. Therefore, any government which in its efforts to promote public enterprise attempts to undertake the satisfaction of any of the real wants of the population will

meet with unrelenting opposition from that group of capitalists whose right it is to provide, at a profit, for this want. This, then, is why there is always a formidable pressure upon any government, designed to shunt off any public enterprises which it may undertake, into useless fields of which the type is the digging of holes in the ground and filling them up again, or Mr. Keynes's bank-notes-in-bottles example. It is this pressure, and not "the education of our statesmen on the principles of the classical economics", that stands in the way of something better than bottle-digging or pyramid-building as the object of public enterprise.

Mr. Keynes was seeking to illustrate his proposition that any work, if it involved the distribution of purchasing power, was better than none, by giving an example of the most fantastically useless kind of work which he could think of. But, as his sentences about "political and practical difficulties" hint, there is more in it than this. He had to prove that useless work was better than no work, not only, and not principally to show that useful work was extremely worth while, but because he realised that in practice public works under any government which was directly controlled by the capitalists were almost sure to be useless.[1] Mr. Keynes has another passage which deserves quotation, both on its own account and because it carries farther the implication that under capitalism unproductive, and even useless public works are, in practice, all we can hope to set the unemployed to work upon, and that therefore we should favour them.

> "Ancient Egypt was doubly fortunate, and doubtless owed to this its fabled wealth, in that it possessed *two* activities, namely, pyramid building as well as the search for precious metals, the fruits of which, since they could not serve the needs of man by being consumed, did not

[1] This, of course, is no reason against a progressive government undertaking public works; but it is a reason for such a government facing the fact that it will only be able to make its public works of a useful character by overcoming strong opposition.

stale with abundance. The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead, are twice as good as one, but not so two railways from London to York. Thus we are so sensible, have schooled ourselves to so close a semblance of prudent financiers, taking careful thought before we add to the 'financial burdens of posterity' by building them houses to live in, that we have no such easy escape from the sufferings of unemployment. We have to accept them as the inevitable result of applying to the conduct of the State the maxims which are best calculated to 'enrich' an individual by enabling him to pile up claims to enjoyment which he does not intend to exercise at any definite time" (p. 131).

The rhythm of the prose and the irony of the argument should not blind us to the implication that, after all, ancient Egypt or the Europe of the Middle Ages, which devoted large parts of their productive resources to pyramid-building or dirge-singing, were wise and fortunate. Not that Mr. Keynes is suggesting that we should build pyramids or sing dirges. On the contrary, he must, surely, have in mind those vast and wholly unproductive objects of expenditure upon which all governments dependent for their support on the capitalist class are in fact spending vast sums of money. He cannot have forgotten armaments. For the truth is that the modern world has discovered a far grander objective than pyramids upon which to employ the labour which the monopoly of the capitalist class over the means of production forbids it to use productively. It has discovered the battleship, the tank, the gun, the bomber. What were Egyptian pyramids or medieval dirges compared to these?

Here, then, we begin to see the danger of an uncritical acceptance of Mr. Keynes's line of argument. Because he is able to show irrefutably that even a pyramid-building or, in practice, armament-building type of capitalist society will be richer and less irrational than a semi-unemployed type of capitalist society, there is acute danger

that his readers may suppose that a pyramid-, or armament-building type of capitalism is *innately* desirable and rational. Mr. Keynes, just because his thought remains within capitalist boundaries, never makes explicit his major premise that the monopoly of the capitalist class in the provision of our major wants must not be disturbed. Hence, for those readers whose thoughts have never transgressed these boundaries either, there will be a strong tendency to throw over the common-sense view that any form of pyramid-, or armament-building is monstrous, and surrender to Mr. Keynes's implication that this is the only way out.

On the other hand, the proposition that a capitalist community which employs, say, half of its otherwise unemployed labour on building even totally useless public works, such as battleships or pyramids, will be more prosperous, because of the increased distribution of purchasing power so effected, than one which leaves these workers idle, is irrefutable.

The Britain of 1939 was a startling example of the truth of this proposition. During the strange months between January and September 3rd, 1939, in which these pages have been drafted, we have seen the number of unemployed in Britain fall from two million to one million and a quarter. The live register stood in August, 1939, at a lower figure than at any time since the great slump of 1929. There is little doubt that the vastly increased all-round economic activity, of which this fall in unemployment was only the most obvious sign, meant a rise in the national standard of life, again to a higher point than had been attained for a decade. And how had this rise been achieved? By spending over £700 million a year, employing hundreds of thousands of workers, and using the very cream of the productive resources of the country to produce armaments. And armament-building, however necessary it may have been, is, from an economic standpoint, a totally useless and unproductive form of public works, exactly analogous in its economic effects to digging up bottles or building pyramids. Not one hour of all the millions of

hours of labour which were devoted to armament-building *increased the British standard of life by a penny.* And yet that standard unquestionably rose! It rose because, under our really insane economic system, the men and women who were building armaments were not before engaged in making useful goods and services, but were doing nothing. Moreover when they were doing nothing they were existing on the pittance of the dole, while now they were being paid relatively good wages. Hence other hundreds of thousands of workers who were also idle before found work making the consumers' goods and services which the armament-workers could now buy. It was exclusively the work of this second set of workers which raised the national standard of life. This is the explanation of the otherwise inexplicable mystery that an expenditure of over £700 million a year on an utterly "useless" object beyond possibility of doubt actually raised the national standard of life.

What a lesson this experience of the 1939 re-armament holds for the progressive parties! For if the expenditure of £700 million a year on what is, from an economic standpoint, a totally useless object can have notably raised the national standard of life, what could not be done by the expenditure of a comparable sum on useful objects! Here we have actual, practical, proof that it is possible to put hundreds of thousands of men and women to work, and so to confer immense benefits, not only on them, but on the whole working population, by means of the government undertaking a major programme of public enterprise.

Mixed Enterprises

This brings us to the second question which we proposed to investigate in this chapter—namely, what should be the kinds of enterprise which a labour or progressive government should promote? At first sight the answer might be thought to be simple. Such a government should promote enterprises designed to supply those goods and services which the population most urgently needs. If the people

need more food, then the Government should spend its money on having more food produced; if the people need more clothes, then on having clothes produced; if housing, then on having more houses produced, and so on. But, as we have seen, a formidable obstacle confronts any government which cannot abolish the capitalist system in directing its enterprises into the most useful channels.

Just in so far as the public enterprises assume a genuinely useful character they begin to encroach upon the field reserved for private, profit-seeking enterprise. In so far as they do that, they will encounter formidable resistance, and—as we shall find when we study what actually happens in these circumstances, in Part II, in the light of American experience—may actually drive out of existence a volume of private investment and enterprise equal to, or even greater than, themselves. There comes a point, in fact, at which the promotion of really useful public enterprises passes over into the distinctly socialist proposal of taking over spheres of the economy from private profit-making. But the object of this book is to attempt to find an immediate, temporary programme which can raise the standard of life of the population with merely the modification, and not the abolition, of capitalism. Hence we cannot consider the extension of public enterprise to the point where it replaces private enterprise in the decisive spheres of production, because that would be socialism. (And, just because it would be socialism, it would in itself solve our problem.)

It does not seem, however, that sufficient attention has been given to the possibilities of the extension of the principle of public enterprise in various spheres of production without any displacement of private enterprise in the actual productive process. The conduct of a big, publicly promoted housing and slum-clearance scheme in Britain affords an example of the possibilities of the intertwining of public with private enterprise. The houses are actually built, in the physical sense, for profit by private entrepreneurs in the building industry. But, because there is an inadequate expectation of profit on their part, these entrepreneurs do not take the initiative in buying the land and

ordering the houses to be built. This, the real initiative for the whole act of production, is taken by the municipality, usually acting under a government scheme and receiving a government subsidy. Moreover, the initiative to build such houses can only be taken by such a public authority. For if the houses are to be let at a rent which the displaced slum-dwellers can possibly pay, there is insufficient profit in the whole proceeding to induce any entrepreneur to move. And yet the public initiative does not displace the private entrepreneur, but utilises his services, and allows him, or rather actually enables him, to make his profit at a later stage. Thus the vested interest with which such a variety of public enterprise comes into conflict is not that of the active private entrepreneurs (in this case the private building firm), whom it may actually benefit greatly, but that of the passive recipients of rent and interest (in this case the slum landlords, investors in property, etc.).

Such an intertwining of the principles of production for profit and production for use could be applied in various other parts of the economy, in various forms. The principle is that the primary initiative is taken by a public authority, using public funds or credit, and with the object not of making a profit, but of providing certain goods or services to meet the needs of the community. But much, or the whole (as desired), of the actual physical work of production is let out on contract to profit-seeking entrepreneurs. This, of course, is how the bulk of armaments are made. There is no reason why other durable consumers' goods, in particular,[1] as well as houses, should not be produced upon the same method, and sold upon credit, as are houses, by the public authority to the ultimate owners.[2]

[1] *E.g.*, electrical and gas installations in houses, refrigerators, vacuum-cleaners, furniture, or even bicycles, motor-cycles, and motor-cars.

[2] Another and more familiar form of the blending of the two principles is the publicly controlled, but still privately owned corporation (*e.g.*, The London Passenger Transport Board). The only advantage, for our purposes, of such public or semi-public corporations is that their directors may be expected to raise or lower the volume of their investment, not solely with regard to maximising their profits. Such corporations *could* raise their investments in a slump and curtail them in a boom, instead of vice versa, and thus help to gain and sustain

This book cannot do more than indicate the type of possibilities which exist for the promotion of useful public enterprises on a large scale. An investigation of those possibilities, executed with the thoroughness which would be necessary to make it of practical value, would require a volume to itself. Nothing, however, is more urgent than that such a detailed investigation should be undertaken. The General Council of the Trade Union Congress approached the Prime Minister in July 1939 with proposals for meeting the emergency of renewed economic stagnation which, as they foresaw, must descend upon this country, if and when the expenditure on armaments comes to an end. It is a task of the first urgency that the most careful investigation should be made of all the methods which might be adopted for the promotion of the most varied forms of public enterprise of a genuinely useful, peace-time character.[1]

To Whom is the Money to Go?

By this time the reader will be already turning his mind to the financial aspect of the whole question of public enterprise. He will be asking the crucial question: " But where is the money to come from? "

The short answer to that question is: From the same place that the money to pay for armaments is coming from. Can there be any doubt that if we can successfully finance the re-employment of our hitherto unemployed population on making economically useless arms, we can equally well finance their re-employment on useful, productive work? Nor shall we let ourselves be impressed by the cry that we

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full employment. They could, in a word, raise their investments in spite of the fact that their rate of profit was falling.

The Swedes, who have some experience in the matter, say, however, that in practice it is very difficult to persuade, or even order, the directors of such corporations to ignore the indicator of profits, and so act as a stabilising factor in the economy. See Professor Myrdal on the possibility of inducing a counter-cycle (his 1938 Detroit address).

[1] Unquestionably housing remains by far the largest and best field. I have made certain suggestions for a National Housing Corporation, as an indispensable addition to the activities of the local authorities, in my book *What Are We To Do?*

are only able to finance the armament programme temporarily—that we are piling up burdens for future generations in doing so. It is a physical impossibility to make the future pay for current production. Let us rest assured that anything which enables us to use our full productive capacity is increasing, not diminishing, the wealth of the community—and will continue to do so indefinitely.

What we can do, and undoubtedly what we are doing at present, however, is to contract obligations to the rich by which they will be enabled to make claims for unearned incomes for generations to come. And we are doing this in order to induce the rich to give us their gracious permission to use our productive resources to the full, instead of rotting in idleness! Thus it is perfectly true that the method by which public enterprises, whether for peace or for war, are financed is a matter of the first importance. But we shall find that the question of finance is important in a way different from what is commonly supposed. It is not really a question of where the money is to come from. The real question is: *To whom is the money to go?* It will be indispensable to take up the whole question of the finance of a progressive programme with the greatest care. We shall not do so at this stage in our discussion, however. For the promotion of public enterprises is by no means the only method by which the purpose we have proposed can be achieved. That purpose is to find methods by which the purchasing power of the people can be increased without the costs of production being raised. The promotion of a large-scale programme of public enterprises turns out to be one such method. But there are others, and these others will raise the question of finance in a very similar form. It will, therefore, be much more convenient to take up the question of the finance of an anti-unemployment, or anti-stagnation, programme as a whole. This we shall do in Chapters VIII, IX and X.

Chapter IV: REDUCING THE RATE OF INTEREST

Interest versus *Profit*

The reader will not have failed to draw an obvious conclusion from the argument of the preceding chapter. We have shown how, say, a million pounds spent, and 4000 men employed, on some public enterprise—a housing scheme, a new road, or what you will—will bring, say, another 8000 men into work producing the goods which the first 4000 will now be able to buy. But is not just the same thing true of private enterprise also? If a million pounds are spent and 4000 men employed by a steel company in building a new steel works, will not another 8000 men find jobs making the things which the steel-mill erectors can now buy? Will not the multiplier work for private profit?

Undoubtedly it will. A million pounds spent by the Government with the direct object of combatting stagnation, and a million pounds spent by a private company in the expectation of profit will have just the same effect upon the level of economic activity. This obviously raises the question of whether or not a labour or progressive government should attempt any measures to stimulate private enterprise as part of its struggle against unemployment and stagnation. At first hearing this may sound a difficult question to answer. But in fact the answer to it is, I suggest, perfectly clear. No such government must dream of attempting to stimulate private enterprise at the expense of the non-capitalist population. If the proposed methods of stimulation involve "sacrifices" or "cuts" on the part of the mass of the population, then they cannot be considered. This at once rules out the habitual capitalist method of stimulation—namely, a cut in wages and social services. (We have seen that this is a self-defeating

measure in any case.) On the contrary, I repeat, that a main effort of a labour or progressive government must be to raise wages. True, it will leave the actual job to the Trade Unions. But the Trade Unions will be so strengthened that they will be enabled to raise wages very appreciably.

It should be equally clear, however, that if any way of stimulating private enterprise which involves no sacrifice from the working population can be found, then a labour or progressive government should not hesitate for a moment to use it. We shall argue in Chapter XII that in general any hesitation to make profit-making work, once it has been decided that capitalism cannot be abolished outright, can arise only from muddle-headedness, and is bound to have disastrous consequences. On its success or failure in the struggle against unemployment and stagnation, the fate of a labour or progressive government will depend more than on any other single factor. Hence there must be no hesitation to use any method of stimulating private enterprise which involves no sacrifice to the workers. For the resulting increase in employment will bring very great benefits, both directly and indirectly, to the workers, which it would be criminal to neglect.

Does any such method exist, however? Is it possible to stimulate private enterprise without inflicting cuts on the working population? The main way of stimulating private enterprise is to reduce its cost of production. But how can that be done without reducing the incomes of the working mass of the population, which, in the last analysis, constitute the costs of production? [1] Is there, however, any part of the costs of production which does not form a

[1] There is a temptation to parody the poet in this connexion, and to say that for the practical economist to-day

> " Incomes are costs, costs incomes. That is all
> Ye know on earth—and all ye need to know."

But if one does so, one must point out that it is the incomes of the non-capitalist part of the population to which one is referring. One part—namely profits (though, as we shall see immediately, not the other two parts—namely, rent and interest) of the incomes of the property-owning class is emphatically not a part of costs.

part of the incomes of the mass of the population? Yes, there is such a part of costs. It is interest. In principle, then, if a way can be found to reduce the rate of interest, we shall stimulate private enterprise without inflicting any sacrifice upon the working population, and so shall, by improving employment, obtain substantial advantages for the working population. (Let us, however, bear continually in mind the qualification which we made at the end of Chapter II. Although a reduction in the rate of interest will actually increase the profits of the active entrepeneurs, it is a cut directly imposed upon the financial groups. Hence it remains true that there is no conceivable way of benefiting the people except at the expense of one or other section of the capitalist class.) Now, a reduction in the rate of interest will not have any appreciable effect in stimulating directly the operation of the existing means of production. But what it may do, as we shall show immediately, is to stimulate considerably the investment [1] of newly accumulated capital in new means of production. And this will, indirectly, make it possible to work the existing means of production. For by providing hitherto unemployed men with wages and purchasing power, it will provide a market for the output of the existing means of production. It will work, I repeat, in just the same way as will an increased amount of public enterprise. For, in general, the only way which the capitalist system knows of distributing sufficient purchasing power to the population to enable it to buy the consumers' goods and services being turned out by the existing means of production is to employ a substantial proportion of the population upon building new means of production, or public works.

But why may a reduction in the rate of interest be

[1] We use the term invest throughout these pages to mean the actual ordering of so many pounds' worth of new means of production—so many new factories, machines, supplies of raw material, etc. Notice that this is a rather different, and more precise, use of the word than is usual. For an individual can invest his money by, say, buying the shares of some company from someone else without anybody actually ordering any new means of production to be built.

expected to have a specially stimulating effect upon the investment of newly accumulated capital in the building of new means of production? New means of production are only built, of course, because their builders expect them to yield a profit. To be precise they are built in the expectation that their operation will yield a sufficient rate of profit to make their building, in all the circumstances, worth while.

But we must now notice a qualification to this. It is not only the rate of profit which he hopes to derive which influences the "entrepreneur"—as the economists call the active, initiating members of the capitalist class, as distinct from the more or less passive receivers of rent and interest—when he is deciding on whether to invest in building some new means of production. He is also influenced by the rate of interest which he will have to pay on the money which he will have to borrow, in order to invest in the building of a new factory, for instance. He will only perform the act of investment if the rate of profit which he expects to derive from it exceeds the rate of interest which he will have to pay. It makes little difference if the entrepreneur actually possesses the necessary capital, available in the liquid form of money; for then, if the current rate of interest is above the prospective rate of profit, it will obviously pay him to lend his money-capital (as it is called) to someone else, instead of using it to build his factory. But this is to under-state the case. The prospective rate of profit must not only exceed the current rate of interest, if the production of new means of production is to be undertaken: it must exceed the rate of interest by an amount sufficient to compensate for the risk inevitably involved. If the entrepreneur can only see the possibility of a 3 per cent. profit, he will not borrow money at 2 per cent.—in case his profit turns out to be only 1 per cent. He must see the hope and possibility of something much more like 15 per cent. to 25 per cent., according to the prevailing degree of confidence felt in estimates of future rates of profit.

Hence, it is not the rate of profit in itself, but the margin

between the rate of profit and the rate of interest, which affects the amount of investment and enterprise which will be undertaken (and so controls the whole economic system). This leads us directly to the suggestion that, while the volume of investment in new means of production, and so, as we now see, of employment and of economic activity generally, cannot be increased by the capitalists' remedy of cutting wages, it can be increased by reducing the rate of interest. For reducing the rate of interest will reduce the costs of production without reducing the purchasing power of the mass of the population.

The Nature of Interest

This view at once provokes us to inquire, What, then, is the rate of interest? Interest is a particular part of the total return which goes to the owners of the means of production. Profit itself is another such part, and rent is the third part. Marxists use the term surplus value to describe this total. Interest separates itself off from profit when the money necessary to undertake some enterprise is provided by one set of people, who are paid a fixed rate for lending their money, and the actual job is done, and the risk carried, by another set, who expect to receive a profit, over and above what they have agreed to pay those who have lent them the money. This is to-day the typical way in which all large-scale enterprises are started and conducted. (Once this has become the prevailing form of organisation, it really makes no difference if the money happens, in any particular case, to be provided by the same people who undertake the enterprise. For, I repeat, it would always be open to them to lend their money to someone else at the prevailing rate of interest instead of using it themselves.) Hence in all cases the prevailing rate of interest has to be reckoned as one of the inevitable costs of production. What, then, determines the rate of interest?

All capitalist economists have hitherto believed that the controlling factor was simply the supply of, and demand

for, capital in the form of money. It is clear, however, that this cannot be true when the supply of money for use as capital persistently exceeds the demand. And this is the situation when serious unemployment of men and machines exists. What, in such conditions, determines the rate of interest? Is there any reason why it should not drop indefinitely, thus stimulating production by lowering costs, without lowering the purchasing power of the mass of the population? Capitalist economists have argued that if this were to happen the supply of money for investment as capital in new enterprises would dry up. For this money, it was suggested, is supplied by savings. And the rate of interest is the reward for savings. Thus the economists predicted that if the rate of interest sank beyond a certain point, people with incomes in excess of what they needed to buy necessaries with would, instead of saving a proportion of such incomes, spend them all on riotous living. Everybody would be employed turning out consumers' goods and services to meet this unchecked expenditure: no one would be left to produce new means of production.

There is no doubt, however, that this is a wholly unrealistic view. At any rate it need give no concern to those who, like ourselves, are seeking a way to increase employment. For the economists' fear is that if the rate of interest sinks too low, savings will become so small, and spendings so large, that *too much* employment will be given by the enormous demand for consumers' goods and services which this profligacy will set up! We shall be tempted to reply that we could do with a little profligacy of that sort! As our discussion proceeds we shall see both that there is a great deal to be said for increasing the proportion which the community spends to what it saves, and that this proportion is probably much more dependent on the distribution of income within the community than on the rate of interest. Here we merely notice that so long as there are idle men and machines, a reduction of the rate of interest which influenced people to spend more of their incomes could do nothing but good. For

the existence of unemployment is evidence that society as a whole is trying to save too much rather than too little.

There is, however, a more serious difficulty. May it not happen that, though people (especially, of course, rich people) will wish to continue to save some of their incomes, even if the rate of interest which they can get from lending their savings to entrepreneurs is very low, yet in that case they will prefer to hoard their savings, in a perfectly "liquid" (which simply means get-at-able) form, such as bank deposits, or even in the form of currency-notes or gold? If, in a word, the active entrepreneurs will only offer a very low rate of interest, will there not be a shortage of funds for them to borrow, not because rich individuals, institutions, and corporations are no longer saving, and are therefore spending their entire incomes, but because they are hoarding their savings? May there not be a sort of strike on the part of the holders of liquid money which can be used as capital? The answer is that indeed there may be. It is becoming clear, however, that in such highly organised communities as Britain and America, the Government and the banks, acting together, can prevent any such tendency as this from producing a shortage of investable funds. The Government and the banks can offer money, which, as we shall see, they can, and do, simply create, to entrepreneurs at any rate of interest which they like to choose, and thus make the entrepreneurs quite independent of any hoarding tendency which a low rate of interest may develop amongst savers. Thus the conclusion emerges that in modern conditions the Government and the banks can, in principle, set the rate of interest at any level they choose (see note to this chapter). This conclusion is of high importance; for it opens up the possibility of combatting unemployment and stagnation by decreasing one element in costs, without making the fatal mistake of reducing (as by cutting wages for example) the purchasing power of the mass of the population.

However, the words "in principle" above cover some very important qualifications. In the first place, as we have seen, the Government and the banks can only provide

the entrepreneurs with money-capital in any quantity and at any rate of interest which they like if they are willing to create money. We shall go into this question in detail in Chapters VIII and IX. In the second place, we must ask, Why should the Government, and more particularly the banks, wish to provide entrepreneurs with money-capital at an unusually low rate of interest? Will it not be much more natural for the banks, at any rate, to wish to keep the rate of interest on the money-capital which they lend as high as possible? For it is, almost exclusively, from the interest on their loans that banks derive their own profits. Money-capital is [1] the commodity which the banks have to sell, and the prevailing rate of interest is its price. Obviously, then, so long as the banks and the other lending institutions are private organisations, bound by their very nature to seek to maximise their profits, the conclusion that the banks and the Government *could* reduce the rate of interest to any desired figure is by no means the same thing as saying that they can in practice be expected to do so.

We shall have to discuss these issues in detail in Chapters VIII, IX, and X. For the moment, however, let us accept the hypothesis that the banks and the Government can, if they like, reduce the rate of interest to any extent which they like. For we shall find that this hypothesis is a correct one, although such action on the part of the banks and the Government will involve far-reaching consequences. Let us examine the question of the effects which reductions of

[1] Money-capital means capital held in the liquid form of money, before it is invested in new means of production. Thus, if I have £100,000 of shares in the Rolls Royce firm, my capital consists in my share of the actual physical and psychological assets—the lathes, machine tools, buildings, organised skill, reputation—of the Rolls-Royce Company. But if now I am paid a 10 per cent. dividend of £10,000 on my shares, I come to have £10,000 of capital in the liquid form of money on my hands. This is money-capital, and remains money-capital until and unless I spend it or re-invest it. And re-investing it means providing some entrepreneur with it for the purpose of building some new means of production of one sort or another. As our discussion proceeds, the reader will see the crucial importance of this question of the turning of the supply of money-capital into actual, physical means of production as quickly as it accumulates.

the rate of interest may be expected to have in encouraging entrepreneurs to invest in the building of new means of production.

Limits to the Proposals Effects

We have an instructive example as to the effect of reductions in interest rates in recent British experience. After 1931 successive reductions in the rate of interest were made, so that representative rates came down from, say, 4½ per cent. to 2½ per cent. That these reductions were a substantial factor in strengthening the trade revival which lasted from 1933 to late 1937 few will question. But their main effect was to stimulate a boom in the special case of house-building. The amount of investment which low interest rates helped to pour into house-building was very great—perhaps to the extent of £170,000,000 a year. This, plus the assistance of the rearmament programme from 1937 onwards, and a high volume of investment in new equipment for mining and manufacture, was, by means of the repercussions described above, sufficient to create a considerable general revival. But it would be misleading to generalise from the special case of housing to other sections of investment. Housing is a special case, in that houses are not means of production, which have, after they have been produced, to yield a profit out of the sale of the consumers' goods which they themselves produce. They are themselves very durable consumers' goods. They do, it is true, have to yield a profit out of the rents which the tenants pay for them. And their production is, therefore, ultimately subject to the risk that no tenants will be found able to pay the required rent. This element of risk is notably smaller, however, than in the case of the production of means of production—the building of new factories, the installation of new machines in existing factories, etc., etc. Thus, the interest on loans made for house-building is to a greater degree a pure payment for the present use of the money, and to a smaller degree an insurance against risk, than is the interest on loans made to build a new factory. Hence a reduction in the rate of

interest will have a much greater effect upon stimulating house-building, should the situation be one of a heavy shortage of houses, than it will upon investment generally.

There is, however, another very large class of objects of investments, such as public utilities, electrification schemes, and railway development, upon which the effect of reductions in the rate of interest will be important. Such things may be regarded as intermediate between house-building on the one hand and factory-building on the other. Taken together they account for a high proportion of the total volume of investment. Thus it appears probable that reductions in the rate of interest can in certain circumstances have a substantial effect in encouraging investment in one considerable category of means of production (public utilities, etc.) and in-durable consumers' goods such as houses. This, however, represents the limits of the effect which lowering the rates of interest may be expected to have upon inducing private entrepreneurs to go ahead (assuming that the two stipulations as to the possibility of creating the additional money necessary, and inducing the banks and other lenders to take lower returns, have been met). For in the field of productive enterprise proper, as distinct from housing and public utilities, the rate of interest which the intending entrepreneur will have to pay is not usually a big factor in his calculations.

Mr. Keynes, who is the leading advocate of lowering the rate of interest, fully recognises these limitations. In his *General Theory* he writes:

> " Only experience, however, can show how far management of the rate of interest is capable of continuously stimulating the appropriate volume of investment.
>
> " For my own part I am now somewhat sceptical of the success of a merely monetary policy directed towards influencing the rate of interest. I expect to see the State, which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of general social advantage, taking an ever greater responsibility for directly organising investment; since it seems likely

that the fluctuations in the market estimation of the marginal efficiency of different types of capital, calculated on the principles I have described above, will be too great to be offset by any practicable changes in the rate of interest." (*Op. cit.*, p. 164.)

In other words, lowering the rate of interest may be a useful measure for counteracting (up to a certain point) the drag which the falling rate of profit exercises upon the system. But this drag does not act steadily and continuously. On the contrary, since it is governed by the, necessarily, irrational expectations of entrepreneurs as to future yields, the volume of investment sometimes drops to almost nothing (as it did in 1932), and sometimes rises to a point which permits of the employment of most (though never now all) of the factors of production (as it did in 1937). Such violent fluctuations cannot possibly be met merely by lowering the rate of interest payable by private entrepreneurs. (See Note, p. 314, for a discussion of the very far-reaching illusions which have arisen on this subject.)

On the other hand, a drastic reduction of the rate of interest, and the holding of that rate at a really low level, is a measure which should form an indispensable part of any progressive programme for combatting unemployment and stagnation. For it is not only the private entrepreneurs who will be affected by the rate of interest. A great deal of public, and semi-public, enterprise is undertaken not by the central government but by local authorities, statutory bodies, non-profit-making corporations, etc. And it is clear that their decisions as to whether or not to proceed with all kinds of developments will be greatly influenced by the rate of interest which they have to pay upon their borrowings. Thus we must think of the proposal to fix and maintain interest rates at a much lower level than they have ever stood at hitherto, not merely, and not principally, as an isolated measure designed to stimulate private enterprise, but also as an essential part of the former proposal to initiate all kinds of public enterprise on

a very great scale. Moreover, we shall find that low interest rates tie in with the other measures which we shall propose in succeeding chapters.[1]

[1] We must not think of reducing the rate of interest in too narrowly monetary a context. The main determinant of the amount of public enterprise undertaken by local authorities is not merely the rate of interest which they have to pay, but the whole attitude of the government—whether the government's sanction is given or withheld to certain categories of schemes, etc. Thus a low rate of interest should be to a large extent thought of as an essential part of the general programme for the encouragement of public enterprises.

Chapter V: THE REDISTRIBUTION OF INCOME

Means of Production or Consumers' Goods?

THE TWO measures which we have so far proposed are both designed to stimulate primarily the production of means of production rather than consumers' goods. The promotion of public enterprises and reducing the rate of interest will, directly, stimulate the production of no consumers' goods and services except houses (though they will, as we have seen, do so indirectly by putting more money into the hands of the mass of the population, and thus increasing the demand for consumers' goods).

This emphasises the well-known fact that any available supply of men and machines can be put either onto making more machines and means of production of all sorts, or onto making more consumers' goods and services directly. Up till now we have seemed to argue that in the first instance the struggle against unemployment and stagnation must, on the whole, be directed to putting otherwise unemployed men and machines onto making means of production and public works, rather than onto making an increased supply of consumers' goods.

But why, the reader may well ask, must such a high proportion of the men and machines at the disposal of the community be devoted to building new means of production, etc., rather than to turning out more consumers' goods for our enjoyment now? Would there not be a lot to be said for allowing ourselves to enjoy some more of the fruits of all the long decades during which we have concentrated on building up our stock of means of production? For my part, I think that there would be a great deal to be said for it. But unless we take the drastic measures herein advocated, any relaxation in the effort to sustain the volume of investment (and so the volume of employ-

ment) in new means of production will not mean that factors of production are transferred to the production of consumers' goods, but that they fall idle. And then, by the series of fatal repercussions which we have described, we shall be pitched into the catastrophe of slump.

The truth is that so long as the means of production are owned by as small a proportion of the population as they are in any capitalist community (6 per cent. of the British population own 80 per cent. of the capital of the country—Daniels and Campion, *The Distribution of the National Capital*), the capacity of the rest of the population to buy, and therefore to consume, the final product of industry must, unless specific measures are taken, remain relatively fixed at a low level. Hence, at first sight at any rate, you must take the capacity of the mass of the population of a capitalist community to consume as a given quantity which will be insufficient to clear the market of all the consumers' goods which would flow into it from a full use of all the factors of production. It follows that you must use all those factors of production which you cannot use to produce consumers' goods to build new means of production. For if you do not, they will fall idle, the workers will cease to receive wages, and the community's capacity to consume will fall still lower (on the multiplier-divisor principle).

This is to look at the problem in terms of real things. Now let us look at it in terms of money. Not enough money is distributed *to the mass of the population* to enable them to buy the final products of industry in a sufficient quantity to keep all the factors of production employed. But that missing quantity of money is distributed to somebody (it is not just lost—that is where Major Douglas goes wrong). It is distributed by way of rent, interest, and profit to the rich; to that 6 per cent. of the British population who own 80 per cent. of the capital of the country. Why, then, should not the rich spend it? If they did, demand would be sufficient to absorb the full final product of industry. Prices would equal costs, and all the factors of production would be employed. But in practice, as we know, the rich do not spend all their incomes. They save

a great part of them, in order that their future incomes may be increased. And what do they do with the money which they save? They invest it; they order new means of production to be produced—or, more realistically, they lend it to entrepreneurs who will order the new means of production. But what if there are too few entrepreneurs who want to borrow, at a mutually tolerant rate of interest, all the money which the rich are saving? What if—to go back to our former way of putting it—the volume of investment drops, because of the tendency of the rate of profit to fall, or because some more local and temporary factor, is discouraging the entrepreneurs? Why, then, immediately factors of production fall idle and the slump is upon us.

If, then, people would only spend more of their incomes and save less, the problem would be easier, since it would not be necessary to sustain such a huge volume of investment. But, of course, the people who spend a high proportion of their incomes are the poor, and the people who save a high proportion of their incomes are the rich. Therefore, if any way can be found of redistributing income from the rich to the poor that does not directly decrease the rate of profit, and so cause unemployment, it will help to solve the problem. For it will mean that the community as a whole will spend more and save less. And this in turn will mean that not so many workers will have to find jobs on producing new means of production, for more can work at producing consumers' goods and services.

Redistributory Taxation

A familiar way of effecting such a redistribution of income is by increasing the direct taxation of the rich. If the new, or increased, taxes are put upon the private incomes of the rich, after those incomes have been received from the corporations which are nowadays usually their first recipients; if a way can be found of throwing most of the weight of the increased taxation upon unearned, as opposed to earned incomes; if, best of all, a large part of the redistributory taxation can be made to fall exclusively upon inherited

wealth, by means of death duties—then it may well be possible to achieve considerable results by a further application of this well-tried method. It may thus be possible, to a considerable extent, to provide that market for the ultimate product without which production is impossible. And it may be possible to do so without too much weakening the profit incentive, which, so long as capitalism remains in existence, will alone make production take place.

Mr. Douglas Jay (the Business Editor of the *Daily Herald*) in his important book, *The Socialist Case*, has made the most considerable attempt hitherto to combine the type of programme for the increase in mass purchasing power, which is beginning to emerge from our discussion, into the traditional programme of progressive parties in general, and of the Labour Party in particular, for the redistribution of a given amount of purchasing power as between the working and capitalist classes. (For that is what the main, immediate measures advocated by Labour programmes and attempted by Labour governments, amount to.[1])

Mr. Jay's greatest stress is on the fact that an increase in redistributory taxation will, by increasing society's capacity to consume, make it possible to maintain full employment without the necessity of keeping up so high a rate of investment. Mr. Keynes also, in the work from which we have already quoted, makes this point. He writes:

[1] It will be a great pity if what appears to me, at any rate, to be the unfortunately chosen title of Mr. Jay's book prevents socialists on the one hand, and non-socialist progressives on the other, from considering many of his proposals. There is a danger that it may do so, since most socialists will, I think, feel profound dissatisfaction with his programme if that programme is to be regarded as an effort to build a socialist society. But if, on the contrary, it is regarded as a study of the economic basis of an immediate programme on which all the progressive forces can unite, then Mr. Jay has made a most significant contribution. In the same way there seems a danger that non-socialist progressives, misled by the book's title, will be led to reject unexceptionable progressive proposals under the mistaken impression that they are socialism. Thus Mr. Jay's title faces his book with the risk of getting the worst of both worlds. And this, I repeat, would be a disaster, for he has obviously made a careful study of just those questions which are most important for a progressive government coming into office in contemporary conditions.

"Since the end of the nineteenth century significant progress towards the removal of very great disparities of wealth and income has been achieved through the instrument of direct taxation—income tax and surtax and death duties—especially in Great Britain.[1] Many people would wish to see this process carried much further, but they are deterred by two considerations; partly by the fear of making skilful evasions too much worth while and also of diminishing unduly the motive towards risk-taking, but mainly, I think, by the belief that the growth of capital depends upon the strength of the motive towards individual saving and that for a large proportion of this growth we are dependent on the savings of the rich out of their superfluity. Our argument does not affect the first of these considerations. But it may considerably modify our attitude towards the second. For we have seen that, up to the point where full employment prevails, the growth of capital depends not at all on a low propensity to consume[2] but is, on the contrary, held back by it; and only in conditions of full employment is a low propensity to consume conducive to the growth of capital. Moreover, experience suggests that in existing conditions saving by institutions and through sinking funds is more than adequate, and that measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favourable to the growth of capital."

Thus Mr. Keynes advocates redistribution of income not because it will increase social justice (he sometimes, though not always, denies that the present degree of inequality of income creates injustice—see note, p. 311), but because it

[1] It is interesting to notice that even so acute and well-informed an observer as Mr. Keynes sincerely believes this to be so. As we show below, not the slightest progress in removing these disparities has been made. All that has been achieved (though this is much) by all our direct taxation is to offset the powerful tendency of the system to increase these disparities.

[2] See note to this chapter (p. 322) for a discussion of this Keynsian term "the propensity to consume".

will actually help to prevent factors of production from being thrown idle. By transferring money from the rich, who will not spend it, and may find no attractive fields for its investment, and in whose passive hands it may, therefore, vanish away like the Cheshire cat, into the hands of the poor who will certainly spend it, and at once—by raising, that is to say, both the capacity and the propensity of the community to consume, a redistribution of income will have the effect of increasing the total of effective demand. This, as we have seen, is because the trouble with capitalism is not (as again Major Douglas supposes) that it fails to distribute enough purchasing power to buy all the final products of industry at prices which will cover costs. The trouble is that capitalism, in its decline, distributes a, in itself, sufficient amount of purchasing power so unevenly that in practice it cannot all be spent or invested.

The capitalist system has become like a ship which has taken on so heavy a list that she can hardly get through the water. The list is not only intensely undesirable in itself, but also thwarts more and more the thrust of the engine. Now, a listing ship can be set upright, not only by putting additional weight on the raised side of the ship, but also by shifting weight from the lowered side to the raised side. And this shift of weight will not only put the boat onto an even keel, but will greatly increase her speed. To drop the analogy, to the extent that we can, first, add purchasing power to the mass of the population and, second, in so far as we can transfer purchasing power from the few rich to the many poor, we shall produce an economy which will be, not only more upright, but which will go better, in the precise sense of being able to use a higher proportion of its factors of production. The whole question is this, however: To what extent can we do either of these things without destroying the incentive to production, so long as the ownership of capital remains concentrated in the hands of a very small class, amounting in Britain, as we have seen, to no more than 6 per cent. of the population, who will only use their means of production for the sake of profit?

Mr. Douglas Jay puts strong emphasis on death duties.

He proposes a complete reform of the present British system of death duties by which the Rignano plan, as modified by Mr. Dalton, is to be introduced. The net yield should be raised from the present £90,000,000 a year to £150,000,000 a year over a period of five years. Mr. Jay proposes, however, that a proportion, at any rate, of the new duties should be payable in kind, whether land, house property, or stocks and shares. Thus a steadily increasing amount of capital—in the sense of actual ownership in the means of production—will accumulate in the hands of the State. This provision will, in the short run, however, limit the effectiveness of the duties as an engine of redistributing income. For this purpose Mr. Jay relies on a drastic increase in income- and surtax.

In several detailed chapters he proposes a complete remodelling of the British system of direct taxation. His main change, apart from increases in rates, is to introduce a far greater differentiation between earned and unearned income than is in force at present. Mr. Jay has several effective passages in which he shows that all proposals for increases in direct taxation have always been resisted by the rich as fatal to the stability of the country, destructive of enterprise, devastating to the possibility of capital accumulations, etc., etc.

Tax on Unearned Income

(Income tax and Surtax combined on income of married couple with three children)

Total Actual Income.	1936–7 Rate.	Suggested New Rate.
£	£ s. d.	£ s. d.
300	nil	2 10 0
400	3 3 4	6 0 0
500	11 17 6	50 0 0
1,000	130 12 6	300 0 0
2,000	368 2 6	1,000 0 0
5,000	1,417 0 0	3,000 0 0
10,000	3,787 10 0	7,500 0 0
50,000	27,725 0 0	45,000 0 0

He is convinced that, on the contrary, the limit to direct taxation of the really high unearned incomes has nothing like been reached in this country. He proposes the new scales shown on the previous page, for example, for unearned incomes.

His proposed increases on earned income are much smaller.

Tax on Earned Income

(Income tax and Surtax combined on married couple with three children)

Total Actual Incomes.	1936–7 Rate.	Suggested New Rate.
£	£ s. d.	£ s. d.
300	nil	nil
400	nil	nil
500	3 3 4	2 0 0
1,000	83 2 6	90 0 0
2,000	296 17 6	320 0 0
5,000	1,346 5 0	1,500 0 0
10,000	3,716 5 0	4,500 0 0
50,000	27,654 0 0	35,000 0 0

He comments on these proposals, which he suggests would have to be introduced gradually over a term of years, as follows:

"The result is really a sharp discrimination against unearned incomes. The active business man, barrister, etc. earning £50,000 a year retains £15,000; but the rentier receiving an inherited £50,000 retains only £5,000. At the £10,000 level the earned remainder is £5,500 and the unearned £2,500. Such a discriminatory scale would be far more justifiable from every point of view than the present British system. And the effects of the gradual introduction of such a combined scale in a prosperous period might be expected to be some increase in the disposition to work, little change in the impulse of enterprise, and a moderate but not over-

whelming fall in the total of private saving. Meanwhile it would enormously increase the resources available for supplementing the incomes of all those workers and their families who lack the necessities of life."

However paradoxically Mr. Jay's claim that such rates of taxation would not discourage enterprise will seem to capitalist opinion, his economics are almost certainly correct in themselves. By offsetting the now extremely strong tendency of the system to an ever-growing maldistribution of income, and so increasing the community's capacity to consume, such taxation (granted, of course, that the money so raised was distributed in one way or another to the population) would no doubt actually help the capitalists to carry on and extend their enterprises. For it would provide them with the one indispensable thing which they lack—namely, a market for the final product of industry. Such a system of redistributory taxation would, as it were, take back a part of the surplus value which the private ownership of the means of production pours into the hands of a now very small class. By themselves such rates of taxation provide no answer even to the immediate problem which faces us. But they are an indispensable part of a general expansionist[1] programme. As we proceed the reader will see how, precisely, the redistribution of income by such methods, dovetails into our other proposals for the creation, by means of the struggle against stagnation, of the maximum possible total of income to distribute.

Have We Re-distributed?

It is certain that British capitalism would long ago have become utterly unworkable, from its sheer maldistribution of income, but for the relatively high scales of taxation of the rich, and distributions to the poor, which have been

[1] We shall henceforward use the term "expansionist programme" to mean the series of measures, such as lowering the rate of interest, the promotion of public enterprise, the increase of social services, and above all the particular method of financing these measures to be described in subsequent chapters, which is beginning to emerge from our discussion.

established. It is almost universally supposed, however, even by many British workers themselves, that the present degree of taxation of the rich, and distribution of the money by way of social services, has in the past thirty years done much actually to improve the distribution of income in Great Britain. (As we have just seen, Mr. Keynes (p. 74) supposes this.) Mr. Douglas Jay has presented valuable and conclusive figures to show that this is not the case, however. He writes:

> "At the present time, therefore, the whole of the money spent for the benefit of the working classes is raised by indirect taxation on the working classes themselves. About £230,000,000 to £250,000,000 is raised by taxation on the workers, and about £230,000,000 is spent directly for their benefit. Moreover, the sum spent in national debt interest and management, mainly for the direct benefit of the rentier, at £224,000,000, is almost as large as the total sum spent on the social services. But the average sum which the individual rentier in fact receives from the Budget must be many times larger than the average sum received by the worker. The plain truth is that the working classes themselves pay for virtually the whole of the social services; and the rich in turn, having supplied themselves with the national debt interest, provide the workers with the blessings of an Army, Navy, Air Force and police. There is scarcely any redistribution of income between classes under our present Budget system, except in so far as the working classes receive for nothing their share in these possibly dubious blessings."

Here we first notice one of the key points of contemporary public finance—namely, that a most significant proportion of the money raised by taxation from the rich is paid back to them by way of interest on the national debt. We shall discuss this question in detail in connexion with both Germany and America. Mr. Jay further concludes that inequality of income has remained roughly the same in Britain over the past twenty-five years:

". . . nine-tenths of the individuals receive only 40–50 per cent. of the income, just as they did twenty-five years ago. Their average standard of living has risen, though not radically, during the interval. But it has risen mainly as a result of a rise in the total national income, and not of a redistribution achieved either by trade union pressure or Budgetary changes."

All this is not to say, however, that the position of the British people would not be incomparably worse if our direct taxation of the rich and our social services had not been established and our important Trade Unions did not exist. For then the distribution of income between the rich and the poor would have got far worse. Our existing fiscal policy and Trade Union pressure have, as Mr. Jay observes, just about succeeded in keeping the distribution constant, and so have permitted some growth in the population's capacity to consume, as the community's total income has increased.

I myself believe, however, that Mr. Jay is too sanguine as to the possibility of raising redistributory taxation to the levels which he proposes, without seriously discouraging private enterprise, and thus, to the extent which public enterprise was not substituted for it, causing unemployment.

This is far from saying, however, that substantial increases in death duties and in the taxation of high unearned incomes from the levels in force before the outbreak of war are not possible without causing a prohibitive fall in " confidence ", and so in the volume of investment. It would, no doubt, all depend on the sort of government which introduced these fiscal measures, the way in which it introduced them, and the point in the economic cycle at which it introduced them. Moreover, particular redistributory measures, such as a capital gains tax, or an undistributed profits tax, appear, from American experience (see below), to be particularly destructive of confidence, as against straight increases in death duties, surtax, and income tax.

In general, then, we must come to the same conclusion

in regard to redistributory taxation which we arrived at in the case of reductions of the rate of interest and the distribution of purchasing power by means of public enterprise. Each of these three policies, it is often argued, provides a remedy for the trouble which is preventing a full use of the factors of production. But it is none the less clear that each of them would by itself fail in practice, for both economic and political reasons. If any attempt were made to apply any one of them on a scale adequate to meet the situation, it would almost certainly come up against insurmountable difficulties. Therefore, each and all of them, if regarded as panaceas, are Utopian, and exclusive reliance upon any one of them would only lead to failure and discredit. This, however, must not lead us to go to the other extreme, and to reject them *as parts of a general progressive programme.* On the contrary, they are each of them inter-related parts of such a programme, without which it would have no chance of success. Even taken together, and combined with the other parts of such a programme, which we shall discuss below, they offer no easy way to success. But they are each important weapons, which a government of the kind which we have envisaged would be culpably negligent if it left unused in the course of what must be its difficult and complex struggle to combat unemployment and stagnation.

Chapter VI: PENSIONS AND ALLOWANCES

A Novel Proposal

The three planks of the economic programme which have so far emerged from our discussion have not carried us onto unfamiliar ground. The promotion of public enterprise, the redistribution of income by the taxation of the rich, and the spending of the money which has thus been raised on increased social services, plus lowering the rate of interest, have long been the stock-in-trade of the programmes of progressive parties and governments. All that has been attempted here is to assess the value, and the limitations, of these measures, in terms of that basic dilemma of our existing economic system which we analysed at the start. We saw that we suffer from chronic economic stagnation and unemployment because the mass of the population, who will alone buy consumers' goods in adequate quantities, cannot, through the channel of wages, be provided with enough purchasing power to clear the market at prices which will cover costs. What we are seeking are methods of getting additional purchasing power to the people without raising the cost of production. The whole problem arises, of course, simply and solely because the ownership of the means of production has got into the hands of a tiny class (6 per cent. of the population of Britain, I repeat, own 80 per cent. of the capital of the country: *The Distribution of the National Capital*, by G. W. Daniels and H. Campion). For it is this which causes such an extreme maldistribution of income that goods must go unsold because the people who want them have no money, and the people who have the money do not want the goods. The problem would be automatically solved if the ownership of the means of production were restored to the people; but that is socialism—and we are working on the assumption that we cannot have that at once.

We can see, then, that the redistribution of income from the rich to the poor will indirectly increase the amount of purchasing power in practice available for buying consumers' goods and services, and so help to increase employment.[1] But the limitation of this measure is that, as and when a certain point in taxation is reached, such taxes as income tax, and even to a certain extent death duties, come to be regarded as a part of costs. And, in so far as this happens, their increase will begin to decrease the profitability of production, and so tend to offset the benefit to employment which the spending of the money will be giving. In the same way we saw that the real point of public enterprise was not the roads, the bridges, the public buildings, or even the houses (however beneficial these will be) which are built. The point of a programme of public enterprise is that so many hundreds of thousands of workers, who were existing miserably on the dole, will now be paid wages, and so be equipped with purchasing power. Their spending of these wages will so increase the demand for consumers' goods and services that somewhere from the same to double their own number of workers (according to circumstances) will find work on satisfying their needs. *Public enterprises are then, in essence, mainly a method for putting additional money into the hands of the population.*

Once the discussion has reached this point, someone is bound to say, "But why use this roundabout method? Why not simply give the extra money which is needed to buy the goods to the population at large?" As it happens, the professional capitalist economists, who are at last studying the causes of the stagnation of our economies, *have* pushed the discussion to this point. And one of them—namely, Mr. J. E. Meade, Fellow of Hertford College, Oxford—has had the temerity to ask just this question. This perfectly respectable, and highly respected, Oxford economist has written a little book called *Consumers' Credits and Unemployment*, in which he says the following. Whenever there is unemployment because people cannot buy the

[1] Notice that this is merely another way of saying that it will increase the proportion of the national income spent instead of saved.

final product of industry, give them some money—so that they shall be able to buy it! Mr. Meade's scheme is, briefly, that the Government should give everybody insured under the National Health Insurance Act (thirty-five million people), one shilling a month when unemployment is over 13 per cent. and ten shillings a month if and when unemployment reaches 22 per cent. But when unemployment falls below 11 per cent. a tax of two shillings a month would be levied, per person employed (if and when unemployment falls below 9 per cent., this tax would rise to ten shillings a month per person employed).

This is not the place to attempt a detailed consideration of Mr. Meade's scheme, though such a consideration ought to be made, since some of its features appear to me highly undesirable. What we are concerned with here is the principle of the thing. Now—and this is the startling aspect of the matter—Mr. Meade is proposing that the money paid to the thirty-five million poorer members of the population, whenever general unemployment exists, shall not be taken by taxation from anyone, or borrowed from anyone. It shall be just created.

Mr. Meade has a very simple objection to the proposal that the money ought to be raised by taxation or borrowed. I will quote it in full, for it will give an impression of Mr. Meade's approach to the subject:

> "A more important objection to the method of borrowing the funds for consumers' credits is that the government will thereby add to the national debt, and so to the annual payments which it will have to make in the future in interest on its debt. A policy of consumers' credits paid on a sufficient scale to prevent a depression, might therefore be seriously hindered by the prospect of adding to the annual burden on the budget in the future.
>
> "Moreover, this burden is quite senseless. The importance of the rate of interest on borrowings, whether by the government or by private enterprise, is that *in the absence of general 'depression' unemployment* it helps to guide the capital resources of the community into the most

useful channels. When there is no general 'depression' unemployment, private enterprise must use less resources if the government wishes to use more, and vice versa. If, therefore, the government and private enterprise compete with one another in the offer of interest on loans for their schemes of development, the rate of interest to be paid on such loans will rise until the total number of schemes undertaken is limited to the available capital resources. Only those schemes will be undertaken which are able to bear the increased interest charge which must be paid on the money by which they were financed. By this mechanism it is ensured that the scarce resources at the disposal of the community are distributed both between different private businesses and between private businesses and the government in the most productive way. But in times of general 'depression' unemployment, this mechanism is senseless. Since there is general unemployment, it is no longer true that if one type of development is expanded, another must be contracted. Indeed the whole object of consumers' credits is to stimulate directly the demand for all kinds of consumption goods, and indirectly the demand for all kinds of capital goods, *at the same time.* There is no point in burdening the state budget with an annual interest on the money which is used to absorb unemployment in all industries at the same time.

"For this reason, we shall propose in the detailed scheme for consumers' credits in the next chapter, that the consumers' credits should be financed by means of issues from the Treasury of new money which bears no interest."

Importance of the Proposal

Several things at once strike the reader of this passage. Mr. Meade has a cool and clear logic which is most welcome. He is profoundly conscious that the same economic laws do not apply to a society which is failing to use a significant proportion of its factors of production, as to one which is. He realises that the laws which applied to a capitalism

which was functioning healthily become senseless in the conditions of capitalism in decline. Secondly, the reader is at once struck (and this is even more evident from the book as a whole) with what I can only call Mr. Meade's political virginity. Mr. Meade appears blandly unaware of the furious opposition to it; the passionate denunciations of it as "unsound"; and the determined attempts to wreck it if it were put into practice, which would arise if the representatives of conservative banking opinion ever heard of his scheme. Nor is he, evidently, in the least aware that this opposition would not be based on an intellectual error, which could be corrected by clarity of exposition. The opposition which any such scheme would evoke would be based upon the sense of self-interest of the most conservative, rentier, section of the capitalist class. And the more clearly the implications, or, as Mr. Meade feels them to be, the advantages, of such a scheme were explained and realised, the more resolute would become the opposition of this section of opinion to it.

Now, the fact that a scheme is bound to encounter fierce opposition from the most conservative section of the community is no reason for ruling it out. Every progressive proposal is bound to encounter such opposition. Even the most surprising proposals can only be rejected if it can be shown that they are inherently unworkable. This is something distinct, be it observed, from discovering that such schemes as that proposed by Mr. Meade would have different and more far-reaching consequences than their authors seem to imply, and that they turn out, on examination, to offer nothing in the nature of a final solution for the economic problem. It may be possible to show that a particular proposal would necessitate modifications of our whole economy, and that, even so, it would only be workable for a certain period, and yet the proposal may be of extreme practical and political significance.

The next group of chapters are devoted to a study of the basic economic issues raised by such schemes as Mr. Meade's. For such schemes raise issues of overwhelming practical importance. If it is really possible to increase employ-

ment by doing anything so eminently desirable in itself as distributing a supply of money to the mass of the population, then this proposal will overshadow in importance such measures as lowering the rate of interest and undertaking public enterprises. Can it really be that whenever general mass unemployment exists it is possible, and indeed immensely beneficial, to distribute large sums of money to the population at large? Can it be, moreover, that it is " senseless " to take this money, or even to borrow it, from anyone—that the rational, sound thing to do is to issue this amount of " new money which bears no interest " from the Treasury?

We shall examine this startling proposition in successive chapters. For, clearly, if there is any truth in it, the possibilities for remedial action along these lines overshadow in importance all other measures which have been discussed. If it is really true that it is possible actually to combat chronic, general, mass unemployment, and, what is more, to combat it by means of something which will be so intensely, and rightly, popular as the payment of considerable sums of money to people, well, then, here is something which will give overwhelming success to the first government which adopts it! Such a measure need not, of course, take the form proposed by Mr. Meade, of giving a small monthly allowance to virtually all gainfully employed workers. The same sum could be distributed by way of much more substantial old age pensions, or by way of children's allowances.

Before plunging into the basic economic issues raised by such schemes, it may be well to canvass some of the forms which they may take. Nor should the reader suppose that in so doing we are entering into the realm of fantasy. The fact is that what amount to just such general distributions of newly created money have actually been undertaken in America during the past six years.

In Part II we shall describe how what Mr. Meade miscalls consumers' credits (*e.g.*, the veterans' bonus, and much of the relief and farm payments) have actually been distributed on a great scale in America in recent years. More-

over, we shall find that, quite contrary to the general impression both in this country and in America itself, the greater part (approximately two-thirds) of the money thus distributed to the American people has been newly created money—it has been money, that is to say, which has not been either taken or borrowed from anybody, but has been created in the sense which Mr. Meade defends so logically. This fact has been obscured by the circumstance that this new money has been created not by the American Government, but by the American banks, which have then lent it to the Government a good deal of it at an almost nominal rate of interest.

Consumers' Credits Proper

But " consumers' credits " is a misnomer for the payment of pensions, allowances, etc., out of newly created money. For example, money has simply been given to various sections of the American people—*e.g.*, the unemployed, the farmers, the veterans. In most cases this has been an outright gift, not a credit, or loan, repayable at interest. This does not mean, however, that it is impossible to devise measures for the promotion by the Government of just such loans or credits to consumers, at a rate of interest of any desired lowness. (And this also, we shall find, has been done in America, *e.g.*, the advances made by Home Owners' Loan Corporation, the various Farm Credit Agencies and the Federal Housing Administration.) Why should not the Government, or the banks, for example, begin lending, at a rate of interest of any desired lowness, to private individuals in order to finance their consumption, instead of lending only to finance production? Why should not the Government, either directly or through the banks, run, in other words, a nation-wide hire-purchase scheme, at an interest rate just sufficient to cover cost and risk? Why should not the Government, acting either directly or through the banks, announce, for instance, that it would open a credit at a low rate of interest for the use of anyone who wished to furnish, refurnish, or repair his house;

to buy a car or a wireless, or a gramophone, or a bicycle; or to buy any other consumers' goods sufficiently durable to last till the instalments on its hire purchase were paid off? In a word, why should we not use the ability of the Government and banking system, acting together, to lower the rate of interest to any extent for the purpose of financing the distribution of what are often called durable consumers' goods?

I myself believe that, mainly for psychological reasons—because the proposal seems so much less startling than that of directly giving people money—some such nation-wide scheme of publicly financed hire purchase might well, in certain circumstances, prove a most expedient, and, up to a certain point, effective measure. The differences between its financial effects and those of actually giving people new money are not so great as would at first sight seem probable. Hence the following discussion of the basic consequences of direct distributions of money may be held to apply to consumers' credits proper also. Consumers' credits are, indeed, merely a sort of half-way house to direct distributions. Their limitation is that they only effect a net increase of purchasing power for the population as a whole while they are being extended. If, for instance, in any given year £100 million of consumers' credits are extended to the population at large, it will be possible to sell £100 million more consumers' goods and services. But, if no new consumers' credits are next year extended, it will not only be possible to sell no more than before the scheme was launched; it will be possible to sell even less. For now the interest payments and the return of the principal will have to be met by the ultimate consumers, and so they will have less money than ever before for buying new goods and services. In practice, of course, the scheme will be a continuing one. A new volume of credits will be issued each year, and so long as the total of credits issued in any year exceeds the return payments being made on interest and principal, there will be a net increase in purchasing power. For a number of years it should be very easy to achieve this. But in time the volume of return

payments being made will tend to pile up, so that it will be difficult to extend sufficient new credits to effect any appreciable net increase in purchasing power. All this merely means that the best, simplest, and most direct way to enable people to buy more goods and services is not to extend them credits, upon terms however easy, but to give them some money.

Giving Instead of Lending

Let us, then, return to the question of giving, rather than lending, the population a supply of newly created money, in conditions of general unemployment. We shall not delay to consider in any detail what is the most suitable method of paying the money out. For there is no difficulty about that. The thing can be done along the lines suggested by Mr. Meade—namely, a monthly payment to practically all wage-earners, varying in amount according to the level of employment. This is, in theory, the most scientific method. But, as American experience shows, the thing can be done, and can have a marked effect on the economic situation, by increased payments to the unemployed, to the farmers, or even to those members of the population who happen to have been in the army during the last war in which the country in question was engaged! Again the thing could be done very simply by terminating all taxation, such as the taxes on tea and sugar, or local rates which fall on the mass of the population, the resulting deficit being met by newly created money. Or again, some specially desirable new social service can be established, such as much superior old age pensions, or children's allowances, to be met by newly created money.[1] The

[1] At the moment in both Britain and America the case for increased old age pensions is extremely strong. But on a long view the case, indeed it is hardly too much to say, the necessity, for children's allowances paid by the State—and not made on excuse for lowering wages—for Britain at any rate, is probably greater. For the truth is that, in the absence of some assistance to parents by which the extreme financial strain of a large family can be met, Britain, as Lord Horder and other authorities have been demonstrating to us, will become depopulated in

disadvantage of such alternative ways of paying out the money, as against Mr. Meade's scheme, is that it would be difficult to discontinue them as and when full employment was approached. If once a certain scale of old age pensions or children's allowances had been established, it would undoubtedly be a grave hardship to reduce such scales or abolish them altogether, as and when full employment was approached.

And everybody, it must be emphasised, is agreed that as soon as virtually all the available workers, and all other productive resources, are already employed, it is entirely useless, and maybe very harmful, to go on creating new money. For once everybody is already working, the creation of new money can obviously do nobody any good. It cannot set any additional men or machines to work, since all are working already. Therefore it cannot result in any increase in the output of goods and services. Its only effect can and must be to raise prices. And if the creation of new money is persisted in, the rise in prices will become continuous and cumulative, and there will occur that phenomenon which people call inflation. (We shall discuss inflation more fully and practically in Parts II and III.) It is therefore only when, and only so long as, general unemployment of men and machines exists that the provision to the mass of the population of newly created money, which is not taken from anybody, can do any good.

This objection to paying out the new money by way of such things as old age pensions or children's allowances, which cannot be cut down, or cut off, as and when full employment is reached, can be readily met, however. It can be met by providing that as, and when, full employment is reached, instead of the payments being reduced or abolished, taxation is increased to meet them. For what is necessary is that the creation of new money should be

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a few decades. Now that, for good or ill, parenthood has become a voluntary act it will be found quite impossible to carry on the race without some provision of this sort. Moreover, as Sir John Orr has shown, at least a quarter of the children of Britain are permanently under-nourished.

stopped. And this can be done just as well by increasing taxation as by cutting down expenditure. Nor, as we shall also see from practical experience, need taxation be raised to what might be considered the penal levels which Mr. Jay suggests, for instance, in order to carry on the new social services as, and when, owing to the approach of full employment, it becomes inadvisable to create any more new money. For the approach of full employment, with the strong general all-round prosperity which such a condition implies, will have driven up the yield of existing rates of taxation to a remarkable extent.

We see, then, that the real issue is whether the distribution of newly created money to the population is or is not an effective measure for combating unemployment and stagnation. This is the issue which we must discuss in detail. This is not to say that the particular channel by which the new money is put into circulation is not of first-rate importance. But this is a question which can be simply and directly solved in practice, if once the principle of the desirability of distributions of newly created money in certain particular circumstances has been established.

Consideration of this principle will necessitate a discussion of more theoretical economic issues than we have yet touched on. We must base our argument on a clear view of the nature of money and the method of its creation by modern governments and banks: on the nature of any such economic system as ours, which regulates itself by means of exchanges mediated by money; on an estimation of the limitations and necessities of such a system, and on a knowledge of the powers, possibilities, and nature of modern banking systems. Before tackling these issues, however, it will be advisable to clear up the relationship of pensions and allowances, paid out of new money, to the other measures which we have proposed.

Chapter VII: SPENDING IS NOT WASTE

Let the Consumer Choose!

The programme which is emerging from our discussion consists, in addition to the more familiar plank of the redistribution of income by means of taxation, in the promotion of public enterprises of all sorts, in lowering the rate of interest, and in the provision of increased purchasing power to the population by lending them, or preferably giving them, newly created money.

While each of these measures is almost sure to necessitate creating an increased supply of money, yet its essential characteristic is that it is a decision to put men and machines to work. Before going on to the underlying theory of the function of money in such a society as ours, it is necessary to establish that this is no less true of our third, last, and most startling plank—the proposal of giving people newly created money as a remedy for unemployment. For there is a very strong prejudice in our minds which almost compels us to suppose that giving away money for nothing in this way (by way, say, of old age pensions or children's allowances) is a wild proceeding; that a government which did that would be, for instance, far more profligate than one which spent a like sum on public works; that to give money away is sheer waste; that such a government would "get nothing for its money". But this is not the case. The truth is that a decision to give people money is a decision to have more consumers' goods and services produced, while the expenditure of money on a public works programme is a decision to have more means of production produced. That is the difference.

All talk of it being waste and squandering to give otherwise destitute or severely straitened people money with which to buy consumers' goods is nonsense. The money will

circulate through the system at least as well if it is put in at this point as it will if it is put in at the means of production end. If it is given to the ultimate consumers, it will flow first into the hands of the producers of consumers' goods, next to the producers of producers' goods, next to the banks, and finally back to the Government itself, just as surely as if it were spent on building new factories in the most orthodox manner. It is necessary to insist upon this point, for our minds have been so conditioned that we almost all tend to believe that money given, say, to the unemployed, or the old, is spent and gone, used up once and for all—if not actually wasted—in a sense in which money invested (a much more respectable word than spent) in a new factory, or in public works, especially if they are of an income-producing type, is not.

But there is not a word of truth in it. The one sum of money is spent on consumers' goods, the other on producers' goods. And that is all the difference there is. Nor is there the slightest reason to suppose that it is wasteful to spend money on consumers' goods. Indeed, I am convinced that just the opposite is the case. Wasteful expenditure, I take it, means expenditure which has involved the creation of goods and services which people did not want, or at any rate did not want as much as other goods and services which might have been created by a different employment of the means of production. If that is the meaning of the word waste, then there have been some hideous examples of waste in both private and public "investment-spending" on producers' goods. In America in the nineteen-twenties, for example, the private corporations spent billions upon billions of dollars upon the strangest things, which they supposed would yield them a profit. They lent billions to foreign countries, which have not paid them back a cent. They build, it is said, something like twice the amount of shoe-making machinery which could possibly be wanted, even if every American citizen could buy all the shoes which his or her heart could desire. They covered the cities of America with skyscrapers, most of which remained tenantless for years, or filled themselves up by emptying

perfectly good alternative, if less spectacular, office accommodation of its tenants.

Nor can it be denied that public spending on producers' goods has often been wasteful, in the sense that it has often resulted in the production of things which, all the evidence suggests, people could very well have done without, as compared with other things which they desperately needed. For instance, it was no doubt well enough to equip the American people with additional roads, bridges, post-offices, town-halls, and the like during the nineteen-thirties. But who can possibly doubt that, given a free choice, that substantial section of the American people who were seriously under-nourished, and appallingly under-housed, during those years, would have preferred that the available factors of production should have been used to produce additional food and shelter? Our economy has become so grotesquely irrational that we are apt to lose sight of this comparison—and in one sense are justified in doing so—because, as we saw in Chapter IV, it is far better (because of the secondary effects) that factors of production should be set onto even wholly useless jobs than that they should be left idle altogether; that they should be set even onto digging holes in the ground and filling them up again, or onto raking leaves, than that they should be left idle. And it is a thousand times better still that they should be put on to useful, if not urgently necessary, tasks, such as road-building, rather than that they should be left idle.

But if we now put this comparison behind us and compare the use of factors for making even such estimable public improvements as wider roads, with the use to which the factors will be put if the initial demand is allowed to come from the ultimate consumers themselves, by means of a simple distribution of money to them, who can doubt that this latter method will be incomparably the less wasteful? Give twenty shillings to an unemployed man, an old age pensioner, a struggling farmer, or, best of all, I am inclined to think, to the mother of a large family of small children, and how carefully each shilling will be spent! Each shilling will be used to buy, and ultimately therefore will

cause to be produced, exactly those goods and services which best satisfy the most urgent needs of the consumers. How incomparably less wasteful; how incomparably more rational, thrifty, prudent, and wise, it is thus to employ otherwise idle factors on producing the things which people really want, than to do so in any other way! Alas that we have all been so schooled that we cannot help (I know that I cannot) feeling that for the Government simply to give away money to the ultimate consumers, so long as idle factors of production exist, is somehow the most daring, extreme, and hazardous of the various devices for re-employing the factors which can be suggested. For reason informs us that it is much the most sensible and moderate.

Effect on Productivity of Labour

It can, no doubt, be objected, even by those who would admit some force to such reasoning as the above, that nevertheless investment-spending on producers' goods, if it be well conceived, is to be preferred for its long-run effects. Such critics may agree that expenditure by way of distribution of money to the population at large will bring the factors of production into employment as readily as will investment expenditure upon producers' goods. But, they will continue, investment expenditure will, in the process, be increasing the productivity of labour, and so will make possible a progressive rise in the national income and welfare, whereas direct relief expenditure, for instance, will merely enable us to utilise our existing productive capacity. It is, however, an error to suppose that distributions of money to the population will fail to raise the productivity of labour. An increase of demand at the consumers' end of the productive process generates investment-expenditure upon producers' goods, just as investment-expenditure generates consumers' demand (on the multiplier principle—as we saw in Chapter III). If, to be concrete, the Government gives away money to the population at large, their spending of this money will cause and enable the entrepreneurs to start investing in new factories, mines,

and producers' goods of all sorts, in order to cope with the increased demand for final products. This fact was amply demonstrated by the experience gained in the distribution of money to the American population between 1933 and 1937 (see Chapter XV below). These distributions did generate a very substantial degree of private investment-expenditure on new producers' goods, nearly all of which, no doubt, increased the productivity of labour. (Investment-expenditure on producers' durable goods rose from $1·868 billion in 1933 to $6·311 billion in 1937—see Part II). This is why you do not have to distribute nearly as much money to consumers as would otherwise be necessary to re-employ all the factors. (To this extent, but only to this extent, pump-priming does work.) Indeed, this is why you *must not* distribute more than a certain amount of money; for if you do, the private investment-spending which you will generate will cause a demand for producers' goods which will compete with the demand which you have created for consumers' goods; these two demands, coming simultaneously, will be *more* than enough to re-employ all the factors, and rising prices (inflation) will result.

The most we can admit, then, is that if you put your new demand in at the consumers' end, the demand for new producers' goods will be secondary and consequential, instead of primary. Therefore, if full employment is reached in this way, more factors will be employed on producing consumers' goods, and less on producing producers' goods, than if full employment is reached by the other route of increased investment-expenditure creating increased demand for consumers' goods, as a secondary and consequential effect. Put in financial terminology, the community will spend more and save less. In modern conditions this will be far from a disaster, however. A moderate shift of the balance of the economy from saving to spending will ease almost all of these problems which we have discussed in these pages. It may well actually result in a more rapid accumulation of capital and a rise in the productivity of labour, since, though the

rate of accumulation will be lower, the volume of accumulation may well be higher, since more factors of production will be in use.

Finally, all such calculations tend to regard the problem in what is, surely, not only a most inhuman, but also a most fallacious way. Even if the maximisation of the productivity of labour is taken as the sole aim of policy, there is a great deal to be said for emphasising consumers' goods. After all, the most important factor of production of all is the workers themselves. Direct distributions of money to them will enable them to buy more food, clothes, house room, medical attention, education, and the like. An increased consumption of all these things will certainly and substantially improve the workers' health, strength, and general ability. *It will vastly improve them as workers.* The truth is that expenditure on consumers' goods for the mass of the population *is* a form of investment. It is investment in the improvement of the most precious of all the factors of production—the labourers themselves. Who can calculate the vast increase in productivity which would arise from the mere fact of enabling the entire British Labour force of nearly 20 million workers, or the entire American labour force of 54 million workers, to be well fed, clothed, housed, and to procure adequate medical attention and adequate education? It is only if we forget the condition of the most indispensable of all the factors of production that we can conceive of expenditure on consumers' goods as waste, even if our sole object is to raise the productivity of labour at the maximum possible rate.[1]

Breaking the Employers' Grip

Is it, then, mere intellectual error which makes the dominant, ruling, financial section of the capitalist class so vehemently oppose all policies of this sort for re-employing the factors of production? We shall find, on the contrary,

[1] It was Professor Myrdal who first drew my attention to this important point.

there is a quite rational explanation of their opposition. We have seen that private enterprise knows no way of getting extra money into the hands of the ultimate consumers except by employing them on the production of producers' goods, or of durable goods such as houses. But now look at the proposition from another standpoint. From the point of view of the ultimate consumers, this means that they cannot live until they can get some private entrepreneur to employ them. It expresses, in a word, the dependence of the people of a capitalist society upon those who own the means of production. It expresses the monopoly of economic power which rests in the hands of these owners. It is precisely because all those who do not own, and have no independent access to, the means of production cannot get money into their hands in any other way than by selling their ability to labour, that the owners are enabled to dictate the terms of sale of labour power. And it is this which enables them to reap for themselves a rich harvest of the fruits of the labour of others. But what if a new channel is dug by which money can come into the hands of the mass of the population without their having to sell their ability to labour to the employers? To the extent that this is done the employer's hold over the population is weakened; his power to dictate the terms of employment, rates of wages, hours of work, etc., is qualified. For the worker can now live without him. Nor is there the least doubt of the immediate, strong, and practical effect which the provision of decent scales of old age pensions, children's allowances, and any other distributions of purchasing power will have upon the bargaining power of the wage-earners. The real reason, then, why the great capitalists, and those who consciously or unconsciously speak for them, will always feel that direct distributions of money to the ultimate consumers are a grossly unsound measure, is that it weakens the absolute character of their control over the working population. The capitalists are bound to object that if you give the workers money for anything except work in private profit-making industry, they will get "out of

hand". And so they will; they will get out of their employer's hand. Surely no democrat will deplore this? But if the employer's capacity to impose dictatorially the obligation to work upon the rest of the population is ended, it will, ultimately, be necessary for society to devise a democratic form of self discipline by which the natural obligation to labour is enforced by society itself.

Experience tends to show, however, that this necessity is far more remote than might be supposed. The conservative's nightmare that if, for instance, the Government paid really adequate relief to all the unemployed, no one would come to work the next day, is grotesquely incorrect—though no doubt the strengthening of the bargaining position of the workers which would result would be remarkable. Moreover, it is perfectly possible to arrange the giving of money to the ultimate consumers in such a way that any tendency to enable the slacker to live without working is reduced to a minimum. For the money can be given to sections of the population who are not required to work in any case. The obvious sections are the old or the very young. Really adequate old age pensions, or children's allowances, paid out of newly created money, are a most valuable part of a programme for re-employing the factors of production in the conditions of economic stagnation which have recently obtained in contemporary Britain and America.

No Utopia

At this point most readers will certainly desire to interject: "Are you arguing, then, that this extraordinary proposal is the long-lost Utopia—the easily attained paradise of plenty which the currency cranks have so long promised us, and which socialist writers like yourself have so bitterly criticised them for advocating? Have you, then, suddenly come to the conclusion that Major Douglas and his friends are right, after all?" No, this proposal of giving new money to one section or another of the population, as a remedy for unemployment, is not the

long-lost, painless way to Utopia. If only it were, I, for one, should be thankful to admit that I had been wrong. When we have got through the task of following out the real consequences and implications of this proposal, and of the other measures which we have advocated, the reader will, I think, agree that if they are to be regarded as an even approximately final solution to our problem, then they are but snares and delusions. The truth is, we shall see, that the application of each one of these proposals raises quite as many new problems as it solves; that none of them can be of any value unless they are seen as steps in a continuing process of social advance. But what I *have* come to believe is that such measures, which are valueless, or actually pernicious, if they are put forward as final solutions, may yet have immense practical and political significance as planks in a progressive programme.

The next two chapters analyse the basic economic and political limitations of the whole type of so-called "expansionist measures".[1] It may be well to point out immediately, however, that, as we have already noticed, the limit of usefulness of such a measure as paying adequate old age pensions, etc., out of new money, is reached abruptly when full employment has been achieved. (Moreover, full employment, as we shall find when we come to describe the actual attempts which have been made to apply such a policy, must be understood as leaving a certain number of workers out of jobs for short periods—owing to changes of employment, changing location of industry, etc., etc.) The moment that no more idle men and machines are left to be brought back into employment by increasing the money demand, either for producers' goods or consumers' goods, or for both simultaneously, why then, of course, it will merely raise

[1] I remind the reader that I am using this term "expansionist measures", or "expansionism", as a convenient phrase to cover the whole policy of lowering the rate of interest, public enterprise, and pensions and allowances paid out of new money, which we have discussed.

prices to go on creating new supplies of money.[1] Therefore we must not suppose for a second that the ability of a modern banking system and government acting together to create new money means that they possess some bottomless purse out of which they can pay unlimited sums to people without taking anything from anybody. It *is* true that purchasing power can, and should, be given to the mass of the population without it being taken from anybody so long as there are unemployed men and machines: but not a moment longer. Therefore we must not suppose that the sums which could be given by way of pensions or allowances paid out of new money, for example, would be limitlessly vast. In Britain and America to-day we habitually leave from 10 per cent. to 25 per cent. of our men and machines idle (except when we are desperately rearming). This gives us some gauge of the extremely important, but by no means unlimited, amount of new purchasing power which could be given to the mass of the population. (Not all of the unused men and machines, I repeat, could be put onto increasing the supply of consumers' goods directly. Some would be put onto making producers' goods, as the consumers' goods demand began to stimulate that sphere also. So that, if, say, 20 per cent. of the factors of production were idle, the purchasing power of the population could only be increased by some lower figure.)

We have already seen that as and when full employment is reached, the creation of new money must stop. But obviously the old age pensions or children's allowances could not be suddenly cut off. On the contrary, they must be continued, but must now be met out of the receipts

[1] The reader should be warned that we are at this stage dealing with the principle of the thing. In practice it is not, of course, true to suggest that the creation and distribution of new money will, so long as there is unemployment, fail to raise prices at all, but that so soon as full employment is reached, it will immediately begin to raise prices. The effect of new money, in conditions of general unemployment, is complex. No doubt it always has *some* effect upon prices. But that effect may well be merely to prevent a drop in prices which would otherwise have taken place, or merely even to check such a drop. We shall find that American experience is of high interest in this respect.

of taxation. It is at this point that the redistributory plank in our programme ties in with the others. When once expansionist measures, involving the creation of money, have restored full employment, then the only way to maintain that full employment is by resolute measures for the redistribution of income. For the terribly restricted ownership of the means of production will be all the time grossly maldistributing, as between the rich and the poor, the increased national income which the expansionist policy will have produced. The payment of large sums to the working population out of taxation will not, I repeat, necessarily involve such extremely steep increases in the *rates* of taxation as would at first sight seem necessary, however. For the mere fact of the restoration of full employment to the economic system will have greatly raised the yield of all taxation, even at the existing rates.[1]

[1] Thus in Britain it would, perhaps, be more a question of retaining the rates of taxation which have been established during the re-armament or the early war period than of increasing them.

Chapter VIII: MONEY AND BANKING

The Nature of Modern Money

We have repeatedly referred in foregoing chapters to the possibility of the creation of money. Not only the direct distributions of money discussed in the preceding chapter, but each of the other measures of the programme which has been sketched, except the redistribution of income by means of taxation, require the creation of new money. Neither reductions in the rate of interest, whether in the familiar form of cheaper loans and advances to producers, or in the less familiar form of a nationally organised hire-purchase system (consumers' credits), nor simple distribution of money, nor yet a major programme of public enterprise, can be undertaken unless new money is created by the banks or the Government. It is now time to attach a precise meaning to the phrase " the creation of money " —to see what the actual process amounts to.

There is, of course, complete agreement that contemporary governments, acting with their banking systems, can, if they like, create new money to any amount. But there is absolute disagreement as to what the consequences of their doing so will be. Many people suppose that the most dire consequences, which they usually call inflation, must in all circumstances result from the creation of money. They used, for instance, to proclaim that if " the currency is tampered with "—if, in particular, its free convertibility into gold is infringed—the consequences must inevitably be an immense and ever more rapid rise in price, ending in widespread ruin, such as struck the German economic system in 1923.

At the other end of the scale, a number of unorthodox writers on economic subjects have forcibly called attention to the money-creating powers of modern, highly organised societies, and have called upon the leaders of progressive

thought to recognise the key-rôle of the banking system. Unfortunately, however, nearly all these writers have failed to understand what money is, how it is created, and what the consequences of creating it will be in different circumstances. Such writers have attributed quite mystical effects, such as the immediate raising of production by 200 or 300 per cent., to a more liberal exercise of the Government's and the banking system's money-creating powers, and have thus attributed our failure to use our productive capacity to non-existent causes. This has earned them the name of currency cranks, and has made the labour movement in particular profoundly sceptical of them. This in itself justified scepticism has been carried so far, however, as to involve an under-estimate of the importance of the power which has now come into the hands of those who control the financial and banking system. Hence it is necessary to see exactly what that power is.

The banks themselves can create money only because money does not now have to take the form of gold, notes, or any other tangible object. The greater part of the money which is being used to effect exchanges between individuals and corporate bodies to-day consists in entries in bank-books, and nothing more. It is a money of account, and this money of account is shifted from one holder to another by means of letters, or cheques as we call them, written to bankers by their customers. Now, it is this bank money alone which the banks can, and do, create. In Britain, for example, the joint-stock banks are most strictly prohibited from printing notes, and the Bank of England is only allowed to print them within a defined limit and acting as the agent of the Government. But all these prohibitions have become, within the limits to be defined below, academic. For the kind of money which the banks can, and do, create—this intangible money of account, or bank money, as it is often called—has become the predominant kind of money in use.

How Money is Created

The banks create money like this. They find, or are found by, an entrepreneur, for example, who wishes to extend his factory. They make him a loan, or advance, of £10,000. Now, if there was any likelihood of this customer asking for 10,000 one-pound notes over the counter, no bank would dare to make the loan unless it had 10,000 notes to give him. Therefore it could only create money by printing it. But the banks know that their customer will do nothing of the sort. If he has obtained the advance in order to extend his factory, he will, it is true, begin to pay the money out. But he will pay it out by cheque. He will pay, let us say, £7,000 to his building contractor, £1,000 to his architect, and £2,000 to the owner of the land on which the new plant is to be built. And what will these three recipients of the money do with it? In all probability they will themselves simply deposit it in a bank—either in the same bank as made the original loan, or in some other bank.

In a word, the advance made by one bank will have created deposits to the same amount in other banks.[1] And these new deposits will be, unquestionably, £10,000 of new, effective money which can be, and will be, used to buy things with. They will be purchasing power, no more and no less effective for buying things than would be 10,000 golden sovereigns in a chest. For the builder, the architect, and the landlord who have received the

[1] It is worth while to notice that all this is not just my say so, but a universally accepted account of what actually happens. Thus the official Macmillan Report which was signed by Lord Macmillan, Mr. R. H. Brand, Professor T. E. Gregory, Mr. J. M. Keynes, Mr. Cecil Lubbock (a director of the Bank of England), and Mr. R. McKenna, summed the matter up as follows:

> "It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves; for by granting loans, allowing money to be drawn on overdraft, or purchasing securities, a bank creates a credit in its books which is equivalent of a deposit."

money will soon put the matter to the test: they will begin to spend. The builder will order a supply of steel, bricks, concrete, etc. The architect will, let us say, buy himself a new car. The landlord will take a trip to the Riviera. The money, now getting split up into smaller sums, will begin to circulate. But it will still be circulating by cheque. The builder will write cheques to the steel-works, the brick-kiln, and the cement-works. The architect will write a cheque to the motor dealer, the landowner to the travel bureau. There will still have been no need for a single currency note.

Sooner or later, however, some of the money will come into the hands of people who have no banking accounts. The builder will begin to pay out wages to his workers. The motor dealer will pay some of his staff in notes. The travel bureau will want some of the money for petty cash in the office safe. And for these purposes they must have notes. But long experience has taught the bankers that of any amount of money which they lend they will only be asked to supply (in Britain) 10 per cent. of it in notes. So when they lend out £10,000, they need be prepared to be asked for no more than £1,000 in notes.

We discover, then, that the joint-stock banks can only lend the £10,000 if they have in their possession £1,000 of notes—or cash reserves, as they call it. What, then, controls the amount of notes and cash reserves in the hands of the joint-stock banks? For this amount, we now see, will determine the amount of money which the joint-stock banks can (not necessarily will) create. The amount of notes and cash in the hands of the joint-stock banks will be determined by the policy of the Bank of England and the Government acting together. These two authorities can increase or diminish the amount of notes and cash in the hands of the joint-stock banks at will and to any amount. Hence, if the joint-stock banks can find an entrepreneur willing to borrow from them at a rate of interest which will cover their cost of operation (say 1 or 2 per cent.), or if the Government will itself borrow for public enterprises, or will distribute money by means of pensions and allowances,

the Bank of England and the Government acting together can increase to any amount, and at will, the amount of money in the hands of the population.

The methods by which they can increase the amount of notes and cash in the hands of the joint-stock banks are various, technical, and in themselves unimportant (they can, for instance, buy securities from individuals who will then deposit the money in a joint-stock bank—this is called "open-market operations"), and need not be described here, since the fact that they can do so is not disputed. Naturally all the methods involve a willingness on the part of the Government to print, or to authorise the banks to print, enough additional currency notes to provide the needful amount of small change into which a certain proportion—estimated, I repeat, at about one-tenth—of the big blocks of money of account which the banks are creating will get broken up. But the small change of bank money, or money of account, which is itself circulated by cheque, is all that currency notes have become in such highly developed economic systems as those of Great Britain and, to a slightly less extent, America.[1]

Here we are simply demonstrating that the power to create new money is possessed by contemporary governments and banking systems acting together. Moreover, this power is essential to the functioning of any modern capitalist community, and is daily exercised. It is indispensable to any modern capitalist community such as Britain that someone should exercise this power to create money. If the vast quantity of new bank money which now exists had not been created over the past 100 years,

[1] In order to demonstrate this, we can conceive of a society in which it had been so arranged that every single citizen had a banking account. It would then be perfectly possible, though extremely inconvenient, to dispense with currency altogether. Every purchase could be paid for by cheque. The whole of the transactions of the community would be mediated by bank money. A call for currency on the banking system would never arise. The only point of conceiving of such a society is to see clearly that a shortage of currency as a limiting factor to the growth of bank loans and deposits is a wholly artificial one. The only rational limit is, of course, the limit which we again and again reach in our discussion, the limit of full employment.

the contemporary increase in production must have been accompanied by a fall in prices so vast as to disrupt the whole system.[1]

Thus it is foolish for bankers or their friends to say, as they still often do, that it is grossly unsound for the Government to create new money out of nothing. For this is something which they are doing (whenever they get a chance) every day of their lives. Nor does it make any particular difference if the money is created in the form of currency notes by the Government, or in the form of money of account by means of the banks making advances. The simple truth is, as we shall see, that it is grossly unsound either for the banks or the Government to create new money in certain circumstances—namely, when all the factors of production are already employed—and that it is not only sound, but urgently necessary, that either the banks or the Government should create new money in other circumstances—namely, when there are substantial unemployed factors of production. Or rather, as we shall see, what is urgently necessary is that the Government and the banks should, when there are unemployed factors, be willing to take decisions and initiatives, which will involve, as one of their consequences, the creation of new money.

Work not Money the Reality

It is always clearer to look at the problem in terms of real economic activity (work) than in terms of its symbol (money). If a government creates and uses new money when general unemployment exists, what it will be doing is to take control of factors of production—including, above all, labour—which the employers are, for various reasons, refusing to use. Of course, if the capitalists are themselves using all the available factors, then the Government would simply inflate if it tried to buy factors and hire labour with newly created money. But if that were the situation, there

[1] Very broadly speaking, industrial production in Britain doubled itself every twenty years during the nineteenth century. Thus, if no money had been created, industrial prices would have been halved every twenty years.

would be no mass unemployment, no slump, and no chronic crisis of stagnation to meet. In that case the traditional progressive programme of transferring purchasing power from the rich to the poor by redistributory taxation, and of nationalising this or that part of the means of production, is clearly the one way in which a progressive government can move forward. But if, as is habitually the case to-day, the capitalists are failing to use a substantial part of the factors of production at all, then important new possibilities are opened up for a progressive government which does not forthwith give up the struggle.

If substantial factors of production, including, above all, millions of workers, have been left lying about, as it were, by the private employers, then the progressive Government can go into the productive field itself, *without taking anything from anybody*. It can either produce goods and services, whether of the public-works type or not, by directly employing men, or it can lend money at extremely low rates of interest to entrepreneurs who, if this is done, but not unless, will still be willing to function; or it can simply lend to, or give to, the population newly created money, which will then be spent and will start up the consumers' goods industries again. Does all this mean, the reader may here interject, that it is now suggested that many, at any rate, of the ills of contemporary society can be abolished simply by manipulating the supply of money? If so, such a reader may add, for his part, and however plausible the argument may sound, he is not prepared to believe it. He is not prepared to believe that solutions to real problems can be found which do not deal in real things.

The objection is well taken. But our argument, though monetary in approach and form, has now pushed its way back to the world of realities: the world of the concrete factors of production, of land, labour, factories, machines, raw materials instead of their monetary image. Of course, it is the real things which must be taken hold of and set to work if anything is to be accomplished. At the same time, so long as our present economic system exists, an inhibition against allowing the monetary representation

of these realities to adjust itself to their re-employment, may prove a crippling handicap to any government which is faced—as any future progressive government, in particular, is certain to be faced—with the task of re-employing idle factors, or of preventing factors at present in employment from falling idle. Our essential conclusion, at this stage, will be that what is indispensable is that there should be someone to make decisions as to how the idle factors of production are to be used. It is this necessity for decisive action upon the part of whatever central authority has its hands upon the levers of power, and not any miraculous powers derived from the manipulation of money, which emerges from the analysis. Parts II and III of this book are largely devoted to showing that such indispensable action, without which any contemporary government must fall, can be pernicious or progressive, according to the social forces which direct it. The primary thing, then, is not the monetary factor as such, but the taking of decisions and initiatives which an unwillingness to create new money would inhibit.

Even so conservative and familiar a measure as a reduction of the rate of interest, such as the reduction which was initiated by the conversion operations of the British National Government in 1932–33, is a case in point. The decision to reduce the rate of interest was the initial act. But this decision involved a willingness on the part of the Government and the banking system to create new money. For unless large supplies of new money had been forthcoming, the intending borrowers (who were in this case at the beginning mainly builders, and later on mainly armament manufacturers), who were encouraged to come forward, could not have been supplied. Unless the Government and the banks had been willing to create the new money, the reduction in the rate of interest could not have been made effective. Conversely, unless the rate of interest is reduced sufficiently to make borrowing attractive to intending entrepreneurs at the given time and place (or unless public works are set going, or the money is distributed in pensions and allowances) the Government and the banks

could create new money to any amount without its having the slightest effect; for the new money would not get into circulation.

Similarly, a decision to employ so many hundred thousand men on various forms of public enterprise, or to equip the mass of the population with an increased power to buy (and so to put men and machines to work on producing what they will buy), by means of giving them, say, children's allowances, or old age pensions, is the essential thing. But the point is that such decisions will involve the creation of new money, and cannot, in practice, be put through, unless this new money is forthcoming. On the other hand, the banks cannot create new money unless someone, either private, profit-seeking entrepreneurs, or the Government, is making decisions to spend or invest.

Thus it is only true on the first level of discussion to say that the banks create the supplies of new money which are always poured into the economic system in a period of rising activity, and which must be created if there is to be any possibility of achieving full employment. Surely, the banks create much the greater part of the money needed to mediate the vast and innumerable transactions of modern society. This has become their function, leaving to the State but the humbler function of providing the petty cash. But this power of creating new money possessed by the banks is much more limited than might be supposed. The banks create money, as we have seen, whenever they make a loan. But they cannot make a loan unless they can find a borrower. (And no one, except the Government, can borrow unless he can find a profitable use for the money.) *Therefore, there is a sense in which what really creates the new money is not the banks, but the initiative of the borrower.* The banks are essentially feminine institutions. They create the new money which sets the wheels of production turning again. But they cannot procreate without a spouse. The newly born money must have a father as well as a mother. Someone must take the active, positive rôle of borrowing, spending, and employing, or the banks will remain barren. But the father of the new money can be

any borrower; it can be either the Government, or a public corporation, or a private corporation, or a private individual.

We begin to see that money is only important in the sense that if we are afraid or unwilling to create a sufficient supply of it we shall be prevented from setting ourselves to work on producing the things we need so badly. But, of course, it is not really the creation of the money which does the trick. It is the decision to set men and machines onto production that matters. What matters is that somebody should take that decision. Private entrepreneurs will, and for that matter can, only take the decision to set factors of production onto work if they expect to make a profit by so doing. But the Government can do so simply because it desires to have produced an increased supply of certain sorts of goods and services. Even the payment of new money to the ultimate consumers, by way of pensions and allowances, is really, I repeat, merely a decision that men and machines should be put to work on producing the particular kinds of goods and services which the mass of the population will buy if they get their hands onto some more money.

The merely secondary and consequential part which money plays in the whole business may be seen from the fact that it is not, in theory at any rate, necessary actually to create any new money in order to encourage greater activity on the part of the private entrepreneur, to enable the Government to initiate public enterprises of all sorts, or to pay increased pensions, etc., to the ultimate consumers. It is possible, in theory, to do any one of these things by increasing the velocity of circulation of the existing volume of money. If the same amount of money runs around twice as fast as before, this will have just the same effect as will doubling the supply of money in circulation. In practice, however, it is extremely unlikely that any government, and especially any progressive government, would be in a position to increase the velocity of circulation sufficiently to carry through an expansionist policy without the creation of new money. Nor would there be any particular advantage in

trying to do so. The only point, for our discussion, of noticing this aspect of the situation is to re-emphasise that it is the decision to employ such and such factors of production on such and such jobs, and to provide, either by its creation, or by sufficiently increasing its velocity of circulation, the necessary money, which does the trick. The monetary sphere simply accommodates itself to the new impulse, either by creating that amount of new money or by an acceleration of the velocity of circulation. (See Note for a further discussion of the velocity of circulation.)

Chapter IX: MONEY AND COMMODITY PRODUCTION

The Gold Standard

So far we have simply assumed that money consists either of entries in a bank book or of paper currency notes. And so it does in both contemporary Britain and America. But to assume this without any further inquiry into the nature of money is clearly to beg a whole number of questions. What, for instance, is the gold standard, of which we used to hear so much? What about the payments which one nation makes to another for the purposes of foreign trade? Is money still of the same character for those international purposes?

Let us begin with the question of the gold standard. When a country is on the gold standard, anyone can take a paper currency note—say a pound or dollar note—to the Treasury or Central Bank and be given a certain, specified amount of gold for it, and will be allowed to take this gold abroad and to buy things in foreign countries with it. This means that the money of the country is freely convertible into gold. And this is almost the same thing as money being gold—as if actual gold coins circulated in commerce, as they used to do in Britain up to 1914, for example. For if anyone can always have gold instead of his paper note, or his immaterial deposit in a bank, he has something which is "as good as gold". When this situation exists, a country is said to be "on the gold standard". Hence we may say that, for any country which is on the gold standard, money does not consist of pieces of paper or entries in bank books, but of gold.

Now, the most important consequence of being on the gold standard is that the Government and banks of a country cannot create new money for any of the purposes which we have described above, unless they have enough

gold to meet the needs of anyone who may want to exchange for gold the new money which he has thus got hold of. And if the Government and the banks create and issue more than a certain amount of money, more and more people may want to change that money into gold, take the gold abroad, and use it to buy things with on the world market. For the effect of creating new money, even when general unemployment exists, will be, as we have seen, to tend to raise prices, or to prevent them falling, if they are falling in the rest of the world.[1] Therefore it may pay people to convert their money into gold, take it abroad, and buy with it there, since that will now be a cheaper market. Hence the gold standard—the free convertibility of the currency into gold—may be a rigidly limiting factor on the possibility of creating new money, even if general unemployment exists. For if more than a certain amount is created, all the gold will leave the country, and it will no longer be possible to "preserve convertibility", as it is called—*i.e.*, to give people a certain definite amount of gold for their pound or dollar note, or, more usually, for their deposit in a bank.

There is, of course, no dispute as to this point. It is precisely this which supporters of the maintenance of the gold standard put forward as their conclusive argument. "If," they say, "you go off gold, the Government will be able to create as much money as it likes. It will use and abuse this easy way of meeting its expenses. Prices will rise; inflation will be upon us; we shall all be ruined. The only hope for us is to cling at all costs to gold. For then there is a certain definite limit to the amount of money which either the Government or the banks can create. If they begin to create too much, prices will rise; the balance of payments between us and foreign countries will turn against us; the foreign exchange rate will fall; gold will be exported. This will instantly reduce the reserves of the banks. In order to preserve convertibility they will have to curtail lending, and so stop creating new money". "Very true," say the opponents of the gold standard;

[1] See Part II below for a discussion of this question.

"this is just what we object to. The banks may be expanding their loans, and so creating money, in the most beneficial way imaginable; unemployment may at last be decreasing; the whole economy may be regaining its health; and then, because of this arbitrary factor of gold, the banks will have to stop. Up will go interest rates; a new and totally unnecessary slump will be upon us."

When it is conducted upon this level, the argument necessarily remains inconclusive. It appears that the supporters of the gold standard are willing to sacrifice very substantial interests (for a slump will certainly hit them hard, as well as everyone else) out of panic fear that the Government, which they usually control themselves, will abuse the powers which are necessary to keep the economy going. This appearance of extreme irrationality is, however, merely the result of a failure on the part of both the supporters and the opponents of the gold standard to bring into consciousness what is the nature of money. It is this same failure which makes the opponents of the gold standard fail to see the inevitable, though by no means immediate, implications of the establishment of an inconvertible currency, such as the British pound to-day. It is this failure to see what money is which allows the more extreme opponents of gold to believe that the mere act of freeing the national currency from convertibility will solve the social problem.

Must Money Have Intrinsic Value?

What makes all the difference, it is evident, between a country the money of which is gold, or is convertible into gold, and one which is not, is that gold is difficult stuff to get hold of. You can write up entries in bank books, and print paper notes for the purposes of small change, to any amount you like. But you cannot create gold like that. You have to sink a deep and large mine into the earth, and there are only a certain very limited number of places upon the earth's surface wherein you can find any gold. In a word, you can only get gold by the expenditure of a certain

definite amount of human labour. It is this which makes gold a real commodity, like coal or corn or rubber—something which on the one hand people need or desire, and on the other that they can only get hold of by means of the expenditure of labour. It is this which gives gold its "intrinsic value", as it is called. Now, money, until recently, has always been something which possessed intrinsic value. And for a very obvious reason. Money has to be something for which everybody will be willing to give up their own commodities, their own genuine, hard-gotten wealth, their coal, or corn, or leather, or what not. This is why money in the remote past tended always to be the thing which people most valued—cows in ancient Asia or Africa, for example, beaver skins in the early days of the North American colonies. For if money had not consisted of something very valuable, you could not have been sure that everybody would give up their own commodity for its sake. And unless you could be sure of that, you could not be sure that when you had given up the thing which you wanted to sell for money, someone else would give up the thing you wanted to buy, for the sake of your money. In that case money would not have served as the universal agent for making exchanges.

Now, the point of all this is that it is only in very highly organised, long-established, deeply rooted communities such as contemporary Britain and America that it is possible to use valueless bits of paper, or intangible entries in bank books, as money. For the use of these things as money is an act of faith on the part of the population. To-day we all believe that if we accept either a cheque from someone with a solvent bank account, or so many currency notes, in return for real goods or services which we have to sell, someone else will accept *our* cheque, or paper notes, in return for their real goods and services, which we want to buy. *This act of faith is in the last analysis based upon a belief that our economic and social system will continue to function normally. It is an act of faith which will prove unfounded if the functioning of the economic system is disturbed beyond a certain point.* As we shall see in Part II, when a country's economic

system breaks down, bank money and paper money actually do become worthless.

Such an act of faith is not involved, be it noted, when money consists in gold, or anything else which has intrinisic value (*i.e.*, anything which is needed or desired by humanity and which it takes human labour to produce). If you have got gold for whatever you have sold, you will certainly be able to use your gold to buy with, no matter what economic or political breakdowns and upheavals take place. This is the cardinal fact of the situation. It is upon the basis of this fact that we shall be able to understand what it is, and what it is not, possible to do by means of the kind of programme which we are discussing.

The first thing to notice is that the degree of confidence in the continued functioning of the economic system which alone makes possible the use and acceptance of bank money and inconvertible paper money is far more difficult to obtain *between* countries than it is *within* countries. The populations of such highly organised, long-established communities as Britain and America have acquired a large measure of confidence in the continuity and stability of the functioning of their economic systems, and therefore in their bank or paper money. This confidence is strong enough to survive even such shocks as the financial breakdown which occurred in America in 1933. It is this degree of confidence in the continuance of the economic life of the community which alone makes possible the use of intrinsically valueless types of money in such communities. But obviously it is a very different story when international exchanges are in question. How can anyone to-day, for example, feel confidence in the stability and continuity of international economic relations? How can anyone fail to apprehend that at any moment the complex web of international trade will not be torn apart, either by war itself, or, short of that, by defaults, repudiations of international debts, or political upheavals? If, then, a trader on the international market accepts any inconvertible money, he runs the risk of finding that it has become valueless when he wishes to use it to buy with. (In

practice it is not likely to become wholly valueless, but it may easily, and frequently does, depreciate suddenly and rapidly in value.) Therefore gold retains its position as the only kind of money which in the last resort can be made use of for the purpose of making international payments. For it is the only kind of money which everybody can be sure will be accepted anywhere, no matter what happens.

Things have not quite come to the point, it is true, when the monies of the various countries—pounds, francs, dollars, etc.—are not accepted in international trade. But these monies are only accepted provisionally. The ultimate international payments have to be made in gold. We shall deal in Chapter XI with the vitally important political consequences of this. Here we are intent to make the point that the impossibility of using such forms of money as bank money, other instruments of credit, or inconvertible paper notes, for settling the final international payments, illustrates the fact that it is only a relatively high degree of organisation, social stability, and mutual confidence which makes it possible to use these kinds of money within countries.

But what do we mean by a relatively high degree of organisation? We mean such things as that settled community life is long established; that there is a governing authority which has been gradually driven to intervene more and more in economic life with the express purpose of maintaining it when it shows signs of breaking down; that each of the great spheres of production (*e.g.*, agriculture, coal-mining, steel-producing, cotton-spinning, shipbuilding, etc.) has become a well-established entity, with a definite amount of the labour and other factors of production habitually attached to it; that the proportionate sizes of these spheres of production bear *some* relation (though by no means an exact relation) to the needs of the community for their respective products; that the liquid money capital of the country has, for the most part, become pooled in a centralised banking system and is allotted by this system to the various spheres of production.

Now, if we compare the degree of organisation reached

within either the British or the American productive systems with the primal chaos which still reigns in the capitalist world taken as a whole, we shall agree that it is considerable. On the other hand, if we compare our present state of things with a genuinely planned and organised economic system, in which the proportionate outputs of each industry, etc., have been settled in advance, so that they both dovetail into each other and taken together meet the needs of the community to the best possible advantage, we shall see that the present degree of organisation in our economic systems is rudimentary in the extreme. For the elements of internal organisation which we have listed above have not changed the basic character of our economies. We still live in what are fundamentally unplanned systems, which hang together only because of the fact that almost everything which everybody produces is brought to market and is there exchanged. It is by means of these *exchanges* that rational, or at any rate workable, proportionalities between the different spheres of production are maintained. For if, say, too much coal is produced, and not enough steel, the price of coal drops, inflicting losses on the coal producers, and the price of steel rises, presenting profits to the steel producers. Accordingly, factors of production, men and machines, are transferred from producing coal to producing steel, and the balance between the two industries is set right.

Any system which works in this way is called " commodity production ". It is so called because under such a system almost everything which is produced becomes a commodity—*i.e.*, something which is bought and sold. Now—and this is the point of the discussion—for a system which has not advanced at all beyond this point (for a system, that is to say, which wholly depends upon the play of the market and not at all on conscious organisation, to make it workable) an intangible money, consisting of entries in bank books and paper currency notes, having no intrinsic value, will ultimately not do. In so far as our economy is still purely of this character, money having intrinsic value, such as gold, is in the last resort indis-

pensable. It is only in so far as our economies have acquired elements of internal organisation that we have been able to depart farther and farther from the use of gold, until to-day, in the case of Britain, we are, for the moment at any rate, using gold for international payments alone.

Money and the Control of Production

It is remarkable to notice that even seventy years ago, when Marx was explaining all this, he took the view that, already at that time, the British economic system was sufficiently highly organised to be able to do without metal for its internal payments. He wrote:

> "All history of modern industry shows that metal would indeed be required only for the balancing of international commerce, whenever its equilibrium is disturbed momentarily, if only national production were properly organised. That the internal market does not need any metal even now is shown by the suspension of cash payments of the national banks, that resort to this expedient whenever extreme cases require it as the sole relief." (*Capital*, Vol. III, p. 607.)

"If only national production were properly organised." The whole key to the problem is in that phrase. It is only if, or in so far as, national production becomes organised that it is possible finally to cut adrift altogether from an objective intrinsically valuable money material such as gold, the supply of which cannot be increased at will.

For think of what would happen to an economy which was entirely regulated by the push and pull of the market—a completely unmodified form of commodity production—which attempted to base itself entirely upon credit and paper money. There would be no ultimate, limiting factor to pull up industries the size of which was becoming entirely out of proportion to that of every other industry. The powerful tendency of profit-seeking production is to expand without limit. If unlimited supplies of credit

money were always available, industries would simply grow out in every direction, competing more and more fiercely with each other for the available supplies of labour, raw materials, etc. Such competition must bid up the price of these supplies, and hence the price level as a whole, to an unlimited extent. Inflation in an extreme form would have arrived. In the end all the kinds of bank and paper money would cease to be acceptable as money, because their power to buy would have shrunk to vanishing point. Goods would be unsalable; it would be impossible to carry on economic life at all, because it would be impossible to effect exchanges. And exchanges, in the type of pure commodity-production economy which we are stipulating, are the only thing—the only nexus—which holds the system together.

We see, then, the absolute need for some intrinsically valuable material to act as the medium of exchange in any economic system which is wholly based upon exchanges, which makes no attempt consciously to regulate, plan, or control itself, which relies exclusively upon the pull and push of the market, and which is driven exclusively by the expectation of profit. For such a system must have a medium of exchange which will in all circumstances be accepted by everybody in return for their goods and services. For this alone is what makes these goods and services exchangeable with each other. And if no one is, by hypothesis, consciously regulating the supply of this medium of circulation, then it must consist of something intrinsically valuable, such as gold, the supply of which cannot suddenly increase 200 or 300 per cent.

We have arrived abruptly, then, at the limiting factor in the use of all forms of bank and paper money. They can only be used to the extent to which the economic system has become organised and elements, at any rate, of conscious control, and direction have appeared. To take the most elementary example, the use of such forms of money to combat unemployment and set factors of production to work again, in the ways which we have discussed in this book, is only possible on the condition (which we have

repeatedly mentioned) that as and when full employment is reached, the increase in the supply of money is stopped. Otherwise the bank-book entries and the currency notes will begin, by the inflationary process of ever more rapidly rising prices, to cease to be money, and the whole economic system will be thrown into chaos.

Moreover, the assumption that the financial authorities can be relied upon to do this is a more serious one than would at first sight appear. For bankers, like other people in a capitalist society, are ordinarily expected to do, not what will keep the economic system going, but what will make the most profit for their banks. Indeed, so long as the banks are owned by private stockholders it is, in a sense, the duty of the bankers to do this. But here we are putting upon them the obligation to act with a view to regulate consciously the economic system to the best general advantage, even when such action conflicts, as it may, with making the maximum amount of profit for their shareholders. Clearly some change in the status of bankers will be necessary if they are to perform such social functions as these. This issue did not arise, be it observed, so long as money was in the last resort convertible into gold. Then there was an automatic check on the bankers. The bankers could run their banks in the most profitable way possible, yet there was no danger of their disrupting the economy by issuing so much money that its value decreased so rapidly that it ceased to be an effective means for buying and selling. For they could not issue more money than was available to them from the supply of gold in the community.

The trouble is, as we have seen, that this automatic check now works so crudely and uncertainly that, as a cure for the inherent instability of the system, it proves as bad as the disease. Now that the capitalist system is far past its prime, now that, as we have seen, the declining rate of profit has thrown the system into semi-chronic stagnation, this automatic check must be abandoned if society is to have any chance of thriving. And it actually has been abandoned, in Britain in practice completely, and elsewhere

largely. But it is vital to see how much of the very nature of capitalism, as a self-consistent, permanently workable, self-regulating system, was abandoned when we abandoned gold; to see the necessity of increasing the conscious, socially planned, control of production now that the automatic check of an intrinsically valuable money has gone.

Moreover, this example of the necessity for bankers (primarily for the central bankers) to undertake functions of a basically different kind, once inconvertible bank and paper money have become the exclusive money for internal purposes, is merely an example. We saw just now that the mere ability to issue an increased supply of money would not put the economic system into working order again. It was indispensable, in order to improve employment, that not only should the banks be willing to lend an increased supply of money at a cheaper rate, but that borrowers should be found. And we were sceptical of enough private, profit-seeking borrowers coming forward. This was why we put forward our proposals for public enterprises of all sorts and for pensions and allowances, financed out of new money. But each of these additional measures carried with it the necessity for further measures of conscious, social control of the economic system. It will prove ultimately impossible to intervene to this extent in economic life; to increase the demand for producers' goods by this much public enterprise; to increase the demand for consumers' goods to that extent by paying out pensions and allowances to such and such an amount, without undertaking a gradually increasing degree of the control of production itself. In Part II we shall see when and where such controls (they tend to take the form of price controls, but he who controls prices controls production) do, and when and where they do not, become necessary. For in Part II we come to the study of the practical experience of the attempts which have been made to apply these measures in America. It will be much more fruitful to study American experience than to attempt to discuss the details of this question in the abstract. Broadly speaking, we shall find that there is little or no necessity for the

extension of such controls during the time in which the factors of production are being re-employed; that the need for them arises as and when full employment is approached.

Limits and Possibilities of Money Reform

We are now in a position to see what is the basic error in all the Utopian schemes for producing perpetual peace and plenty by currency reform, of which Major Douglas's plan is merely the main contemporary example. All through the nineteenth century these plans appeared in various forms. There were, for example, Robert Owen's Labour Exchange Bazaar, John Grey's detailed scheme, and a dozen others. Marx and Engels carefully explained why these proposals were useless, and why those of them which were actually put into effect, as was Owen's for instance, invariably ended in failure. They were attempts to have it both ways. They were proposals to abolish the one regulating and governing factor which can keep working a system based upon commodity production, without creating any form of planned, social control to take its place.

It was, and still is, imperatively necessary to explain why nothing but full social control and planning of production—in a word, socialism—can possibly take the place of capitalism as a permanent method of organising human society. But I have come to believe that a situation has now arisen in which socialists cannot leave the matter there. The sheer force of events has driven a great capitalist community such as Britain off the gold standard. The British economy has now for eight years, in Marx's words, dispensed *with metal entirely for the internal market*. Moreover, America itself, though for peculiar reasons, which we shall analyse in Part II—she has not had to rupture the convertibility of her money with gold—has undertaken a most extensive programme of expansion, by the creation of vast new supplies of bank money, along the lines of the programme which we have evolved above. Therefore it appears to me that evidence is accumulating

that these two communities, at any rate, are evolving along the lines of the scrapping of one basic—in some respects *the* basic—postulate of capitalism: namely, an objective, intrinsically valuable money. It is necessary for socialists to point out that there is no possible final resting-place for society once it has set out upon this road, short of the establishment of the full social control of production. But I am bound to say that the available evidence seems to me to suggest that socialists, including myself, have exaggerated the immediacy with which an expansionist programme, involving the break with gold, will disrupt such relatively highly organised economies as those of Britain and America. Therefore we also exaggerated the immediacy of the necessity to impose full social controls on production, once the roots of the old self-acting mechanism had been sapped by breaking the convertibility of the currency.

In one sense, no doubt, this is merely a change of emphasis—a changed estimate of the probable time in which an inherently inevitable tendency may be expected to work itself out. But in another sense—and in a sense which is practically all-important—it involves an important change in attitude towards the whole expansionist type of programme, which we have discussed in theory, and which President Roosevelt has sought to apply in practice. Formerly most socialist writers (see, for instance, my own references to the New Deal in *The Nature of Capitalist Crisis*) saw in such a policy nothing but a futile attempt to preserve for a brief period an inherently outworn social and economic system by applying the powerful but deleterious drug of inflation. Nor is there any doubt that expansionism can have this character. If the creation of new money takes exclusively the form of loans or subsidies to distressed capitalist financiers;[1] if it is accompanied by no attempt at the redistribution of income; if there is

[1] In that case the creation of new bank money can certainly become, in Marx's trenchant phrase, an attempt "to transform all bankrupt swindlers into solvent and solid capitalists by means of pieces of paper" (*Capital*, Vol. III, p. 606). Even such measures can, no doubt, postpone the general crash, but only by making it worse when it comes.

no attempt to increase, either directly or indirectly, both the absolute and the relative incomes of the mass of the population; if there is no attempt to widen and deepen in any way the scope of such elements of the social control of production as exist—if, in a word, the monetary and expansionist measures do not form part of a general and well-thought-out progressive programme, then their only effect will be a brief and hectic boom, followed by a worse relapse than ever.

But I have come to believe that expansionist measures, if they do form part of such a general progressive programme can be an indispensable step in the right direction. Both aspects of such measures point in the right direction. The creation of new money enables most important immediate benefits, both by way of increased employment, with all the increased bargaining power which that brings with it, and by way of direct pensions and allowances, to be given to the mass of the population. The political effects of this cannot be exaggerated. And, at the same time, the fact that the loss of the objectivity and intrinsic value of the currency which is involved will sooner or later make necessary, on pain of ever-increasing dislocation, a growing degree of social control, will surely seem no disadvantage to socialist opinion? This is but an example of the fact that a policy which, if it is regarded as an end in itself can be shown to be fundamentally fallacious and illusory, may yet prove to be of great value if it is accepted as a first stage in a continuing process of transition.

For the partial character of the policy will itself lead on to further measures. The very fact that no stability, no permanently workable solution can be found within the limits of this policy will ensure that, once a community has been driven by events to tackle its problems in this way, it cannot halt at the first stage, but must of necessity push on to more thoroughgoing measures of reorganisation.

I am fortified in this view by American experience. It is not that President Roosevelt's courageous attempt to advance along this road has been an unqualified success. We shall describe in some detail both its achievements and

its failures. It is rather that, faced by practical experience, American Marxists who, like myself, had been sceptical or hostile to the whole conception of an expansionist policy, have found themselves strongly supporting such a policy because of the absolute necessity of devising some remedy immediately applicable in the given political situation—some method of combating the desperate conditions to which unmodified capitalism had reduced the American people. American Marxists have not, of course, failed to point out the limitations inherent in President Roosevelt's expansionism, nor to expose the very real dangers to which it gave rise, more especially in its early phases. But all the same, to an ever-increasing degree, and as the inherent tendencies of such a policy, *when it is being undertaken by a genuinely progressive government*, have unfolded themselves, American Marxists have more and more found themselves engaged in defending the genuine gains which the American people have made under it, and in exerting their maximum effort to extend and develop the policy in every possible way.

While the experience of President Roosevelt's two administrations reinforces the view that expansionism must play a vital part, above all in the initial stages of any progressive programme, it will do little to soften the attitude of socialists to such schemes as Social Credit—schemes for solving the problems of humanity by manipulating the currency. Indeed, the more strongly we feel that expansionism can play an indispensable part in setting the feet of such communities as Britain and America onto the progressive road, the more we shall deplore the propagation of these caricatures of such a policy. For alike by their wildly exaggerated claims and by the elementary fallacies of economic analysis upon which they are based, these schemes do great harm, precisely because they tend to discredit in advance all attempts to find a way of using the undoubted possibilities of the contemporary monetary and credit system in the service of human progress.

Finally we must raise here, for the first time, another possibility. It will not have escaped the reader's attention

that the American Government is not the only government which has used the creation of new money as part of a general programme which has had the effect of producing full employment. The German Nazi Government has also broken with orthodox financial canons in its determination to devote every single man-hour of German labour to armament-building. Is there not, it may well be objected, something extremely dangerous about a policy which, it is evident, can be directed to the most atrociously reactionary ends as easily, it seems, as to the most progressive? But no, what is dangerous is not the policy, but the Fascist uses to which this and many other policies can be put. What is dangerous, in a word, is not this or that technical measure for controlling and directing the economy. What is dangerous is the coming to absolute power of extreme reaction, based upon precisely those monopolistic financial and industrial interests which our policy challenges; what is dangerous is that these interests, in their up-to-date, demagogic, Fascist form, will use these, and many other, economic measures [1] for their purposes of oppression and aggression.

What is above all dangerous is that the progressives, when they have their opportunity, should fail to grasp it; that they should fail to take hold of the decisive economic controls by means of measures of this type. (See Note.)

[1] Fascist governments do not always adopt an economic policy bearing even the remotest relation to an expansionist technique. The Nazi Government did so, the Italian Fascists have done nothing of the kind.

Chapter X: THE BANKS FOR THE PEOPLE

How, But Not Why

It has now been shown how a modern banking system *could* finance such measures as a major programme of public enterprises, a lowering of the rate of interest to all borrowers, private and public, and the payment of various pensions and allowances to the population.

We have seen that the nature of money has changed, is changing, and will inevitably change still further. We have seen that already the limiting factor on such a programme is never the supply of money, which can be increased at will, but the supply of human labour, which is strictly limited. So far, however, we have looked at all these matters from an economic, almost a technical, standpoint. Unless we hasten to correct this account, by bringing in the political factor, a wholly unreal impression will be given. For example, we have shown *how* the banks can finance all these measures of expansion, and so confer immense benefits on the community. But we have said nothing at all as to *why* the banks should do anything of the kind.

The banks *can* do all this, but why should they? And what will happen to their profits if they do? We asked this question as far back as Chapter IV. Now we must face it squarely. The banks are, in principle, ordinary profit-seeking corporations. The difference between them and, say, a steel company is that the commodity which they sell is money instead of steel. In practice they do not so much sell money as hire it out, and the rate of interest is, amongst other things, the price of money. Can there be any doubt, then, that the natural inclination of bankers will be to hold the rate of interest at as high a level as possible?

So long as money was an intrinsically valuable material such as gold, there was nothing inconsistent with capitalism

as it existed in the last century in this inclination. The rate of interest settled itself more or less automatically according to the demand for and supply of money-capital. The demand depended in the last analysis on the profitability of production. The supply depended, not only on the amount of savings, but also on the supply of gold. (The evidence for this is the immense stimulation which every major discovery of gold gave to production, by tending to increase the supply of money, and so lower interest rates.) Moreover, the banks were genuinely competitive institutions. If money was in plentiful supply, no bank could hold up the rate of interest. The borrowers could find cheaper accommodation somewhere else. To-day this is all changed. To-day, to an ever-increasing extent, the rate of interest is not something outside the control of the banks, to which they have to accommodate themselves. It is something which the bankers themselves fix. For, on the one hand, the banking system has become an effective monopoly (of the tacit-cartel type), and, on the other, money has ceased to be an intrinsically valuable material such as gold, the supply of which cannot be increased at will, and has become entries in bank books or paper notes, the supply of which can be completely controlled.[1]

These two changes in the status of the banks, and in the character of money, are leading examples of the profound change which has come over the nature of capitalism as a whole. That change marks the passage of the system to a new stage of development, which is called monopoly capitalism, or Imperialism. It is one of the characteristics of the change that some of the economic laws which govern the behaviour of capitalism while it is still competitive cease to apply. Certain things which before simply happened, can now be done. Conscious control becomes applicable to spheres where it was impossible before. Instantly the question is raised, On whose behalf, and in whose interest, is the conscious control to be applied?

[1] In both respects this new situation has arisen more completely in Britain than in America.

Once the banking system had become monopolistic, and money had become an entry in a bank book which could be written up at will to any amount, the price and supply of money capital became something which the banks could consciously determine within very wide limits. Once that had happened, what the price and supply of money capital were to be had to be fixed. And they had to be fixed either in the interests of the people, or in the interests of those who own and control the capital of the country.

The great joint-stock banks are supposed to be conducted exclusively in the interest of their shareholders—in the interests, that is to say, of that small section of the owning class which happens to have its money invested in the shares of the banks. But to-day this is largely a fiction. The character and connexions of the directors of the great banks make it clear that the banks are really run, not primarily in the interests of their shareholders, but in the interests of the property-owning class as a whole. This is unquestionably, and in a sense admittedly, true of the Bank of England, but it is also in practice true of the five great joint-stock banks. Their dividends tend to be fixed at a conventional figure, and their real function to become one of serving the interests, not of their shareholders, but of the owners of the great industrial and commercial corporations of the country. Both the capital and the directing personnel of the great banks and the great non-financial corporations becomes ever more entwined.

The reader will not fail to observe that this situation makes illusory any implication that the banks, as at present constituted, would, or indeed could, adopt the type of policy which has been developed above. The fact that it can be shown that such a policy would be immensely beneficial to the mass of the population is simply irrelevant to a banking system which is organised for profit-making or, more broadly, for the protection and promotion of all the interests of the property-owning class. It would be foolish even to expect the directors of a banking system owned and controlled in this way to put first the interests of the population at large. Such directors are bound, for

example, to think of the effects of a given lowering of the rate of interest upon their own shareholders and upon the whole lending, creditor, rentier, interest before they can think of its effect upon the level of employment and standard of living of the working population.

Unless, then, the necessity of making a profound change in the status, and therefore the function, of the banking system is faced, the whole expansionist programme which we have developed becomes an illusion—and, like all such illusions, a harmful and disturbing influence on the progressive forces. Nor must the magnitude of the task involved in changing the whole nature and function of the banking system be under-estimated. The banking system is the central citadel of the property-owning class. Moreover, it is a citadel which is interconnected at a thousand points with the rest of the city of property. The leaders of those who rule us are well aware, even if we are not, of the profound changes in the very nature and purpose of the economy which would be effected by popular control over the banking system. There is not the slightest doubt that our rulers will exert themselves to the very utmost to prevent such popular control being achieved or effectively exercised. Indeed, it may be argued that so formidable would be the reactionary resistance to a banking system controlled by the people, that if the progressive forces were strong enough to overcome this resistance, they would be strong enough to expropriate the capitalist class and begin the process of building up socialism. A sober estimate of the real political forces in existence in contemporary Britain and America must, however, make us reject this argument. There are tens of millions, not only amongst the intermediate sections of the population, but also amongst the workers themselves, who would not support general expropriation, but who would ardently support strict and effective popular control of the banking system. Similarly there are elements amongst the property-owning sections of the community who would fight to the death against general expropriation, but who could be forced to tolerate popular control of the banks.

In a word, it is a grave over-simplification to suggest that because a particular change cannot avoid intense struggle with big business and finance, that means that it cannot be made at all, unless the working class is so strong that it can do anything it wishes. The essential point is that such a proposal as the popular control of the banking system will join issue with reaction on ground where the progressives are at their largest, strongest and most united, and reaction at its most isolated and weakest.

The exact method by which the existing British banking system might be modified until it became an organism consciously devoted neither to profit-making for its shareholders nor to protecting the interests of property, but to the job of preventing the idleness of factors of production, cannot be discussed in detail here. The simplest way would be, no doubt, for the existing shareholders to be bought out completely, being given government bonds in payment, and for the system to be formed into one great national banking corporation, or, if that were thought, as well it might be, too gigantic and cumbrous, into several great public corporations. The transfer of the ownership of the banks' shares to the Government would not, indeed, in itself solve the problem. If such a government were itself but the executive instrument of the narrow sectional interests of the very rich, then the public ownership of the banks would effect no change for the better. On the other hand, it is possible that, given a government of a progressive character, a government genuinely representative of the interests of the overwhelming majority of the community, real and strict control, rather than outright national ownership, might suffice to produce such a banking system as we have envisaged. If, for example, the present bank shareholders were given preferred stock, with a fixed rate of interest, in exchange for their present equities; if they were thus pensioned off at a fixed rate, the banking system, if the right directorates were appointed by the Government, could perform the vital public functions which have been proposed for it in foregoing chapters.

The basic question of securing a banking system which conducted itself as, and felt itself to be, the instrument of the whole community, rather than of the capital-owning class, is ultimately a question of power. It is not so much this or that alteration of the constitutions of the banking corporations which would do the trick, as the establishment, alike at the Treasury, at the Central Bank, and in the major joint-stock banks, of vigorous and unquestioned popular control. But this is the great question of the achievement of real popular power, with which this book does not deal. This book's function is the different one of submitting suggestions as to how that popular power must be used in the economic field if genuine progress is to be achieved and reaction defeated. Our conclusion is that the main basis for the success of a progressive programme consists in the conversion of the banking system from a profit-making organisation into a national service. If this can be effected, the actual production and distribution of goods and services can still be undertaken, in the main (it is not exclusively so conducted to-day) in the expectation of profit. But the fundamental and vital decisions as to the total volume of goods and services to be produced, and, to some extent at any rate, the maintenance of rational proportions between the major spheres of production, can be made, and implemented, by the joint work of the Government's fiscal agencies—namely, the Treasury and a banking system conducted as a national service.

Other Lending Institutions

It would, however, be a great over-simplification to suggest that the banks are the only lending institutions in the community, and so the only institutions which are directly concerned with the rate of interest. In the first place, we have been speaking here of the central bank and the major joint-stock banks. Besides these there are other types of banks, such as the so-called merchant banks, which are mainly, though not exclusively, concerned with foreign trade. We shall deal with the questions raised in

this connexion in the next chapter. Then there are the savings banks, of various types. These savings banks specialise in collecting into a pool the savings of the poorer sections of the population, on which they pay a low rate of interest. They then lend the considerable sums thus collected, generally to the Government, or they invest them in some "trustee security" which is believed to be wholly safe. The savings banks are, of course, affected by the prevailing rate of interest, as any lending institution must be. But it would be a mistake to suppose that the type of policy which we have discussed need immediately necessitate a reduction of the rate of interest which such institutions are able to offer to their depositors. Already that rate of interest is modest; hence what is in question is rather a general scaling down of interest rates to the level already existing for the small saver, rather than any further reduction for him.

As the general policy developed it might, in the end, it is true, require some reduction in even these rates. But surely the small saver should not fear this, since fuller employment would have enabled him to have an income out of which to save! As a matter of fact the average depositor in savings banks, etc., is predominantly concerned with storing up a lump sum, in a perfectly safe and liquid form, upon which he can always rely to meet an emergency, rather than with the interest, which usually brings but an inconsiderable addition to his saving, in any case. What, in the last resort, faces the small saver is the choice of having a larger and, above all a reliable, income brought to him, as wage-earner, salary-earner, or small shopkeeper, by the high level of economic activity made possible by an expansionist policy, together with a modest rate of interest on his savings, or the promise of a high rate of interest on savings which he will never be able to make, because of prevailing stagnation and unemployment!

As, however, we came to the conclusion that it was probably impractical to bring rates of interest much below their present level in Great Britain, this whole issue is hardly an immediate one. Indeed, a progressive govern-

ment might be well advised to promise depositors of savings banks, etc., that it would never allow the rate of interest on small savings, say up to £500, to fall below, say, 3 per cent.

There are other important lenders to be considered. There are, for example, the great insurance companies. No doubt these massive institutions would tend to resist cheaper money. But they might well prove unwise to do so, since they stand to gain so much from a high level of economic activity that they would almost certainly gain more in this way than what they lost in lower rates of interest on their government securities and other loans. Finally, there are the building societies, and with them the individual private lenders on mortgages, usually secured on house property or land. No doubt these interests, also, are likely enough to oppose money being supplied to producers and consumers at cheap rates in the way which we have described. For them too, however, such opposition might well prove unjustified, even if judged by narrow balance-sheet standards, so long as the process of re-employment was going on. For the great increase in the volume of business which they would do might well more than compensate them for the lower rates of interest which they could command.

In general it cannot, naturally, be denied that an expansionist policy must face the determined opposition of the great creditor, lending interest. But this is merely to say that such a policy is no dreamy panacea which claims to reconcile the interests of all sections of the community, doing good to all and harm to none. Unfortunately in this harsh world such charming schemes do not exist. Here, however, is a suggested type of policy which can bring immediate and extremely significant benefits to immensely the greater part of the nation. It will not leave untouched the position of the pure creditor, as distinguishable from the active entrepreneur, interest, and is therefore sure to be most strongly opposed by that interest. But can it be doubted that once a progressive government had fairly begun to apply this type of

programme, such overwhelming popular support for it would be shown, that the voices of the creditors, who cried out, however bitterly, that all was lost because they were getting 1 per cent. less on their money, would fall upon deaf ears?

Chapter XI: THE BALANCE OF FOREIGN PAYMENTS

Paying for Imports

In chapter ix we saw that gold is, in the last resort, the only kind of money in which you can settle your accounts with foreigners. For it is the only money which they will take in all circumstances. And we saw that the reason for this was that there was no organisation of production at all upon a world scale; that we were able to use pieces of paper and entries in bank books to pay each other with at home only because there has grown up a certain degree, at any rate, of habit, stability, fixed relationships, and even a little organisation, of economic life, within such countries as Britain and America.

This does not mean, however that in normal conditions we have to pay out gold for everything which we buy from abroad—for all imports, that is to say. What happens is something like this. A British steel firm buys £10,000 worth of iron ore from a Swedish mining concern. In order to pay, it has to buy £10,000 worth of kronen (for the Swede must have his own currency, to pay his workers, etc.). But at the same time a Swedish merchant buys £10,000 worth of cloth from a firm in the Yorkshire wool-textile industry. In order to do so the Swede must buy £10,000, and put down the necessary number of kronen to pay for them. It is clear that the two transactions balance. The Swedish merchant can be given the £10,000 of the British steel firm, and can hand it on to the British textile firm. The British textile firm can be given the kronen of the Swedish merchant, and can hand them on to the Swedish mining firm.

Now, this type of transaction is happening constantly between British firms and foreign firms, over the whole world. The balancing of the payments is done, of course, not by the firms themselves, but by bankers and dealers in money of all kinds. But the principle remains the same as

in our absurdly simply example. If all other countries buy from us the same amount of stuff as we buy from them, then the payments can all be set off, or balanced, against each other. There will be no need actually to pay out any money of any kind to foreigners. But what happens if British firms taken together buy, during any given period, more from abroad than they sell to abroad? For a certain time a balance can pile up. For a certain time the foreign firms selling to this country will be quite willing to allow a debt, expressed in one way or another, to pile up in their favour. But let us suppose that British firms go on and on buying more than they sell. For a longer and longer period the payments being made between all British firms and all foreign firms cease to balance. What is to be done? Clearly some means of paying the foreign creditors must be found. This involves providing them with a kind of money which they will take. And the only kind of money which they will always take is gold. Therefore, as Marx once and for all expressed it, "when the payments cease to balance, the balance must be paid". And it can only be paid in gold.

But what would happen if and when British firms, banks, the Treasury, etc., had paid out all the gold they had? Why, then Britain could only import goods and services to the exact value that she was exporting at the same time. If, for example, we sold abroad goods and services in April to the value of £70 million, we could buy £70 million worth of goods from abroad in May. No less and no more. For we should have no money, other than what we got from our exports, which foreigners would take to buy with. As we shall see in a moment, such a contingency is an extremely remote one for this country. But it can and does happen. It happened to Germany even before the outbreak of the war for example. With the exception of a secret hoard of gold or foreign currency or foreign securities held back for war purposes, Germany had exhausted her supply of gold some time before the war. Therefore she could import only to the exact amount which she exported (except, indeed, when she managed to steal a new supply

of gold or foreign money, as in the case of both Austria and Czechoslovakia).

What it all comes to, then, is that we have to export enough goods and services to foreigners to get hold of enough of the only kinds of money which they will take—namely, gold or their own currencies—to pay for the goods and services which we want to buy from them. Now, basically this is not at all a difficult problem for us in Britain. It is true that we buy a great deal from abroad; that it is highly advantageous for us to continue to buy much the greater part of our present imports of goods and services from abroad; that it is absolutely essential for us to buy *some* of these goods and services (foodstuffs and raw materials) from abroad. But, on the other hand, we have a very large, long-established, very widespread export trade with the rest of the world. In this connexion it is important to stress the words "and services". Britain acquires an important proportion of the kinds of money needed to pay foreigners for our imports by carrying their goods for them in British ships, and by doing banking and insurance business for them. By and large it may be said that it is almost impossible to imagine a situation, in peace time, in which it would be impossible for Britain to get enough gold or foreign money to pay for the indispensable part of her imports, or even for that part of her imports which it is highly advantageous for her to have.

There is another source of the money with which to pay for these imports. Year after year the richer classes in Britain have been investing their money abroad. Some of these investments have been lost in slumps, and some were sold up to pay for imports during the last war. But even now these investments are large, and large payments of interest and profit on them are made to British subjects. These payments, since they come from abroad and are earned in foreign currencies, provide money, just as much as does the sale of British goods and services, with which imports can be bought. (But, as we shall see, it is by no means certain that this money will in fact be used for this purpose by the rich investors who receive it.)

Moreover, there is the overriding consideration that any inability on our part to buy the food and raw materials which we need would spell ruin for the countries which sell to us. We should be hard put to it to live if we could not buy our Argentine beef, New Zealand butter, American cotton, Australian wool and wheat. But, on the other hand, most important producers in these countries would be ruined if they could not sell to us. And, in the last analysis, they know that they cannot sell to us unless they are willing to buy from us. So long, then, as British workers can produce excellent manufactured goods of all sorts; so long as coal can be dug from British pits; so long as British shipwrights know how to make first-rate ships, and so long as we do not tolerate the establishment of hostile and aggressive armed forces in strategic positions from which they can threaten our trade, we shall always be able to earn enough money of the kinds which are necessary to buy the foodstuffs and raw materials which we need from abroad. This is the rock bottom of the question. It is indispensable to understand it, for constant attempts are made to pretend that if we have the temerity so to arrange our economic life that we can all work at satisfying our vital needs, we shall infallibly starve to death from inability to import, apparently as a penalty for breaking certain mysterious "economic laws" which are far too high and complex for us to aspire to understand.

Sending Money Abroad

Once this basic reality has been established, however, it is equally indispensable to understand that the practical problem of the balance of foreign payments, as it is likely to present itself to any future progressive government, is much more complex than the above. It is unlikely to the point of being in practice impossible that such a government should be faced with an impossibility of paying for indispensible imports because we were not selling enough goods and services abroad. But it is likely to the point of certainty that any progressive government which

did not take early and firm measures to deal with the situation would be confronted with an inability to pay for necessary British imports. For the money which had been earned by British exports of goods and services, and by way of interest on foreign investments, would be withdrawn from the country by the rich, and so rendered unavailable for buying imports. This is the real problem which will face any progressive government which is re-employing the population by means of the type of programme which we have discussed. And very real indeed it is.

Let us examine the issue more closely. It has been implied that the only thing for which money of the kinds (gold or their own currencies) which foreigners will accept is used, is to pay for imports of goods and services from abroad.[1] Now, it is perfectly true that these are the only *necessary* uses of these kinds of money. But they are by no means their only actual uses at the moment. Money in large quantities goes abroad from this country for several other purposes as well as to buy goods and services from abroad.

First, large lump sums of money go abroad whenever British citizens make a loan to the citizens or to the Government of any foreign country. For example, if Britain decides to lend Turkey, as she did recently, £16 million pounds, this usually means that that sum must be converted into Turkish currency, and thus made available for the spending of Turks. It is true that in many cases part of this money comes back to this country in the form of orders for British goods from Turkey. When that happens, the Turks have to buy back pounds with which to pay for them. But, for the rest, the money of a foreign loan has to go abroad in just the same way as if it had been spent on buying imports. Therefore, if not enough foreign money is being brought in by way of exports, etc., such

[1] We may add for purposes of foreign travel by British citizens. But this, though it is quite an appreciable item, may be thought of as a service which foreigners do for us—though they happen to do it in their own countries. Hence we may group it as an imported service.

a foreign loan will tend to cause Britain to have to settle the balance which is piling up against her by paying out gold—the only money acceptable for a settlement. In a word, such loans ought only to be made when more payments are being made to a country, than are being made by that country. Second, money may be invested abroad. For example, a British employer who has, say, just made £50,000 of profit manufacturing aeroplanes, may wish to buy American shares—say United States Steel Common or General Motors—with the money. But before he can do that he must buy dollars. For dollars are the only money which the American corporations, or the American holders of their shares, will take. And here again, if insufficient foreign money is coming in, a balance of payments will begin to pile up against Britain and she will sooner or later have to ship out gold to settle it.

Third, money may be sent by wealthy British citizens to lie on deposit in foreign banks. The motive for doing this is almost always fear of what will happen to money left in Britain. For instance, it may be fear of a war and its possible consequences, or it may be fear of the measures of a government which the holders of the money dislike. And in this case, too, the tendency is to pile up a balance of payments against Britain which can only be paid in gold.

It must be obvious that in the long run the sending of money abroad in these three ways must be limited to the amount by which the payments made for our exports of goods and services, plus the interest coming back to us from previous investments abroad, exceeds our payments for imported goods and services. For the former constitutes our supply of money acceptable to foreigners, while the latter constitutes the necessary use of such money. Hence it is only the surplus of the former over the latter which is available for lending, investing, or depositing, abroad. Or rather, if we lend, invest, or deposit abroad more than this difference, we shall soon exhaust our always quite limited stock of gold.

This balance is called "the balance of payments".

We now see that what in actual practice determines whether or not there shall be need for us to send gold abroad to settle a balance which is piling up against us, is not whether we have exported enough to pay for our imports. It is not the balance of trade, as it is called. We may easily have sold more than enough to enable us to buy all that we have bought, and yet the balance may be piling up against us, and it may be necessary to settle it with gold. For the rich may have invested, lent, or deposited abroad much more than this margin. In that case it may become genuinely difficult to pay for our imports—because the available supply of money acceptable to foreigners has been lent, invested, or deposited abroad.[1] This is the real problem, and it is impossible to over-estimate its importance. The great financial institutions, corporations, and rich individuals of this country possess enormous resources in the form of liquid funds, or in forms which can be made liquid. Hundreds of millions of money can be suddenly sent abroad to buy foreign securities or to make deposits in foreign banks. A huge demand for foreign currencies, and consequently a huge drain upon the gold reserve of the country, quite out of proportion to what is needed for buying imports may occur. And this is a most serious matter which may well make it impossible for a govern-

[1] There is a complication, which, though important in practice, we need not pay close attention to while we are engaged in grasping the basic nature of the question. Just as our rich may lend, invest, or deposit their money in, say, America, so the rich of other countries may lend to, or invest and deposit their money in this country. And whenever they do this they increase our supply of money acceptable to foreigners, just as our rich diminish it when they send their money abroad. A further complication arises from the difference between money lent abroad, which cannot be brought back here at all for a stipulated term of years, money invested abroad, which can be brought home after a varying degree of difficulty and delay, and money deposited abroad, which can be brought home instantly. Thus, if the foreign rich deposit their money here, while our rich lend their money abroad for a definite period, trouble may suddenly arise even if we are being lent as much as we are lending. For in a panic, the foreigners who have deposited money here may suddenly take their money out, while our foreign lenders cannot bring home their loans. And a sudden demand for gold to settle the balance can arise. This is often called "borrowing short and lending long".

ment engaged either upon a rearmament programme, as is the present Government, or for a progressive government determined to employ the entire working population upon raising the national standard of life, to buy the imports necessary to such programmes.

The Control of Foreign Payments

What, then, must be done? Clearly a way of controlling the amount of money which the rich shall be allowed to lend, invest, or deposit abroad must be found. It is important to see that this is the essence of the matter. It is not a question of what is called "exchange control", in the narrow sense of that term. The truth is that once the convertibility of the currency into gold has been broken the rate at which the pound will exchange for foreign currencies cannot be controlled, except by the above method of preventing the balance of payments from turning against the country. Nor is it a question of preventing the export of gold. If once the balance of payments has been allowed to get seriously upset, it is necessary to allow gold to be exported: in the last analysis that is the only way the country's necessary imports can, in such circumstances, be paid for.

The relevant point of control, therefore, is that of ensuring that the liquid, easily movable, funds of rich corporations and individuals are not sent abroad; and of ensuring that the country's income of money acceptable to foreigners is not squandered for this purpose instead of being used to buy imports. This does not mean that either a government devoting the national energies to rearmament, or a government using the entire labour force of the population to raise the national standard of life, need necessarily entirely prohibit foreign lending, investing, and depositing. If our export trade is flourishing; if world demand for our goods and services is strong; if we are able to buy our imports cheaply, we may have a surplus of foreign money resources, so that foreign lending, investing, or depositing will cause no strain. But it is absolutely indispensable

that the Government should, beyond doubt or question, have the situation within its control; that it should be able instantly to stop the export of money when such export shows the first signs of becoming, not the genuine disposal of a surplus, but a panic rush, either for higher profits, or for safety from war or political risks. For such a rush can, if it is not stopped, sabotage irrevocably the whole national effort.

How, then, can control of the country's balance of foreign payments be established? There are various degrees of such control. The first and simplest is to prohibit the raising of foreign loans in this country without the permission of the Government. This measure of control, and only this one, was, in effect, though not in form, imposed by the National Government before the outbreak of war. Next, individuals and corporations can be prohibited from investing abroad. Legislation would have to be passed making it illegal for any British citizen, or corporate body, to buy any form of foreign security without the permission of a government authority established for that purpose. The third stage would be to extend this control to the depositing of money in foreign banks.[1] It is not the purpose of this chapter to attempt to discuss the details of how such controls could be made effective. Much must obviously depend on the whole complex of political and economic circumstances which exist at the time and place at which they are instituted. It may be, however, that the only way in which such a control could be made effective would be to prohibit the buying of foreign currency for *any* purpose without govern-

[1] Beyond the establishment of such a system of controls over foreign payments lies the possibility of it being necessary to control the actual volume of imports, as for example the New Zealand Government has done. For if the nation's income available for foreign payments does not suffice to cover all the imports which its citizens are buying, then the only way of avoiding a drain on our supply of the kinds of money acceptable to foreigners, is to cut down luxury or unnecessary imports. For the reason given above, however, it does not seem likely that any such step would be necessary, so long as our resources were not allowed to be squandered by the rich lending, investing or depositing their money abroad.

ment authority. Such a decision would involve setting up a formidable system of controls, for it involves permission being given for all foreign transactions. If, however, this proved the only way in which the Government could mobilise the national resources for a sustained effort to overcome economic stagnation and to raise continuously the national standard of life, can it be doubted that the establishment of such a control would be but a very small price to pay? We have only to think of the price which the millions of unemployed men and women of the distressed areas have paid, year after year, for almost twenty years, to feel that it is almost indecent even to compare with it the inconvenience of the establishment of such a system of control.[1]

It is true that the establishment of such a system of controls would be quite unnecessary if a labour or progressive government could count on the co-operation of the financial authorities and of the property-owning class generally. But it is certain that, far from being able to count on their co-operation, such a government could count on their stubborn opposition—and could depend also upon that opposition soon taking this particular form of the attempted withdrawal from the country of all supplies of money-capital which were held in liquid form or could be readily made liquid.

We are envisaging a government which had already established a strict control of the central bank and at least the major commercial banks also. This in itself would greatly facilitate the prevention of withdrawals of money-capital from the country. But it would not be enough. All the available evidence [2] shows that this is the favourite method of all others by which the owners of property combat a progressive government. Hence it is absolutely indispensable that such a government, in addition to the basis for its programme, which it must lay down by the transformation of the banking system into a national

[1] This Control was set up after the outbreak of war.

[2] Especially, of course, the methods used to destroy M. Blum's Government in France.

service, should take cast-iron powers for the prevention of the withdrawal from the country of money-capital. This would mean, I repeat, that one of the very first acts of any progressive government in Britain which meant business would be to take the very fullest powers which it could in any circumstances require to control all purchases of foreign money or foreign assets and securities of any kind by British citizens. If everyone had been thoroughly convinced of the will and the ability of the Government to use such powers, the actual use of some of them might, it is true, prove unnecessary. But if any doubt existed that the Government could, if it would, use such powers, then the very possibility of carrying through the type of programme discussed above would be jeopardised from the outset. It would, I submit, be far better for a progressive government to risk defeat in Parliament in a determined attempt to acquire such powers at the outset, rather than to embark on an ambitious programme without having secured this safeguard. For all experience shows that, above all in Britain, with its large volume of foreign trade and its world-wide connexions, a government which cannot control the balance of foreign payments is at the mercy of the holders of the liquid, mobile money resources of the community.

Chapter XII: CONCLUSIONS

A Six-point Programme

We have now completed the outline of an economic programme for a progressive government, working within the conditions laid down at the outset—working in conditions, that is to say, which preclude the immediate establishment of socialism. The whole aim and object of our programme is to raise to the maximum possible degree, in the minimum possible time, the standard of life of the mass of the population. To that end the programme, as must all such programmes, contains measures designed to secure an increased share in the national income for the people. But the distinguishing feature of the programme is that it adds to these familiar, redistributory proposals other measures designed to increase, almost at all costs, and whatever obstacles stand in the way, the total of the national income. The main emphasis has been laid upon these latter measures. For these are the measures which are designed to combat unemployment and stagnation in all its forms. These measures are designed to keep the very maximum possible proportion of the available means of production working at full pressure, and so overcome that chronic idleness of men and machines which has become the most horrible of all the curses of our society. Such measures are the decisive ones. On their success or failure everything depends.

The programme, as we have developed it in these pages, has come to consist in six interlocking measures:

(1) The promotion of all kinds of public, or mixed, investment and enterprise, which is not, or is not wholly, dependent upon the expectation of profit as its incentive.

(2) The lowering of the rate of interest to all intending borrowers, thus making investment and enterprise more attractive to all private borrowers at a given expectation of profit, and more possible to all public borrowers.

Both these expansionist measures should be financed, so long as general unemployment exists, by the methods which will be made possible by the fifth and sixth measures of this programme.

(3) The redistribution of income from the rich to the poor, effected by means of those kinds of taxation which are not mainly, or at any rate not entirely, reckoned as a part of the costs of production (*e.g.*, death duties).

(4) The payment of greatly increased pensions and allowances, and other social services, so long as general unemployment exists, out of newly created money rather than out of taxation.

(5) The development of a national, and public, as opposed to a commercial, and profit-making banking system.

This is the decisive point in the programme. Unless this is accomplished, nothing else can be done. For the secure establishment of a genuinely national, public, and non-profit-making, banking system would mean that the main stronghold of that financial, and essentially monopolistic, interest which is to-day strangling the life of the community had fallen. That interest is the parent of Fascism. Leave it in control, and political reaction is bound to follow. Break it by united and well-directed popular action, and the road to progress is open.

(6) A strict public control over the balance of foreign payments.

This measure, too, though not so central as the fifth point is indispensable. For it alone provides an adequate protection against the counter-offensive which monopolistic finance is certain to loose against any progressive programme.

Without these last two measures of control it is not, then, possible to take the four former measures, designed to increase general purchasing power and so effectively to combat the curse of the unemployment of the working population.

It must be clearly understood that such a programme as

this is not put forward as a substitute for the more familiar proposals of the progressive parties, such as the raising of wages, the shortening of hours, the institution of holidays with pay, the nationalisation of this or that industry, the democratisation of our political system, the development of a democratic foreign policy, etc. On the contrary, the above-described expansionist programme is submitted for serious consideration as providing an indispensable economic basis, without which all the other invaluable work of a progressive government will inevitably be wasted.

A Fallacy of Over-simplification

Let me repeat very briefly the reasons which have driven me to the conclusion that an expansionist policy is indispensable to the success of any labour or progressive government. One way of stating the main economic conclusion at which we have arrived is to say that we cannot hope to combat stagnation unless we can increase the share in the final product going to the mass of the population. This is an exceedingly familiar conclusion: it has been common ground to much liberal and socialist opinion for many years. But such opinion has, naturally enough, been unwilling to give weight to the conservative objection; that objection has always been, in effect, to say: "But if you do that, you will destroy the motive of production. You may make production possible by supplying a market. But, nevertheless, production will not take place, for it will have become insufficiently profitable."

Many Marxist economists have given full weight to this objection (as I attempted to do in *The Nature of Capitalist Crisis*). They described this dilemma, and indeed emphasised it. They pointed out that the dilemma was, in principle, insoluble, and then left it at that. The capitalist system had come to an *impasse;* it must be, and would be, abolished. I have come to believe that such a conclusion is irrefutable, but, in a sense, abstract, and therefore misleading in practice. It is all-important to see that this is the basic nature of the economic problem which

confronts us. But that does not mean that nothing can be done about it. The dilemma of profits or plenty cannot be solved so long as the decisive part of production is carried on for profit. That is why socialism is the only final solution. But there are ways and means by which the consequences of the dilemma can be, for a time and to an important extent, combated, though only by means of modifying the nature of capitalism to the serious extent which has been described.

The fallacy which led to the view that nothing could be done about the dilemma of profits or plenty lay in a failure to distinguish between the three constituent parts of surplus value, namely—rent, interest, and profit.

To put the same point politically instead of economically—to put it, that is to say, in terms of persons instead of things—the fallacy lay in the implication that it was not worth while trying to tackle first of all the financier, money-monopolist interest—to attempt to isolate this interest from some other sections of the capitalist class. But the possibility of thus uniting the overwhelming majority of the nation against the tiny reactionary coterie at the top exists, and cannot be neglected. This possibility cannot, however, be made into an actuality unless the underlying economic facts have been understood. For, unless these facts have been understood, they cannot be made use of. And the decisive underlying economic fact is that it is not true that a reduction in the rate of surplus value as a whole must in all circumstances discourage industrial production for profit. A reduction of the rate of profit, in the narrow and exact sense of that word, must immediately discourage capitalist production. But a reduction in the rate of rent and, above all, interest will, in some circumstances, as we have seen, actually stimulate capitalist production for profit.

We were careful, however, not to press this distinction too far. Just as rent and interest on the one hand, and profit on the other, are all parts of the larger whole which we call surplus value, so the passive *rentiers* and the active entrepreneurs, though they are distinct interests, are yet

both parts of that larger whole which we call the capitalist class. Moreover, these two sections of the capitalist class are to-day closely interwoven. Thus we must not expect too much—or indeed, in my opinion, very much—of reductions of the rate of interest in themselves. That was why we laid such heavy stress upon the two other, and much more positive, methods for stimulating production—namely, public enterprise and the distribution of new money. Both these measures are, however, of the same type as reductions of the rate of interest, in that they benefit the mass of the population, both directly and indirectly, at the expense of the *rentier* and financier interest, rather than at the expense of the direct employers of labour. Indeed, in the case of many of these direct employers, such as builders, and all firms supplying consumers' goods, these measures will confer great benefits upon them.

We need not expect many employers of labour to support them on that account, however. To-day the larger financial interests dominate the whole capitalist class to such an extent that even measures which will undoubtedly confer large benefits on the employers of the lighter-consumers'-goods industries are unlikely to receive support from such employers. In Britain, in particular, trustification has gone far precisely in the lighter consumers'-goods industries. And wherever there are trusts there are certain to be interconnexions with high finance which will produce bitter opposition, even to a programme which will greatly increase the turnover of the firms in these industries. It is only amongst the remaining, genuinely competitive, employers that the possibility of any support exists. And that possibility will, we may unfortunately be sure, only become an actuality in exceptional cases. It is quite true that we are not proposing to provide these independent employers with cheap credit, and with the inestimable benefit of a market for their goods, created by our distributions of money, for their sake. We are doing so simply because this is, in all the circumstances, the most practical, effective, and rapid way of raising the standard of life of the mass of the population. In Part II we shall take up the

extent to which finance as such has now so dominated the still-independent employers as to render it extremely difficult to make them realise their common interest with the people. We shall take up this point when we come to deal with the history of the American New Deal.

Production must be Carried On

An expansionist programme is the only way by which the intensely difficult task of raising the standard of life of the population without the complete abolition of capitalism, and the organisation of a socialist economic system, can be attempted with any hope or prospect of success. It is very probable, though not certain, that circumstances will arise in which just this attempt must be made. What those circumstances are has already been defined in the preface. They are circumstances in which the popular, democratic forces in the community are strong enough to take the lead and to form an administration, but are not strong or united enough to expropriate the capitalist class as a whole and build up a socialist economy.

Every progressive political party, including the Labour and Communist Parties, of such communities as Britain and America, have proposed partial, immediate programmes, which do not amount to the abolition of capitalism, in order to meet this situation. And if once such programmes are proposed, there is nothing whatever to be said for failing to face their logical necessities. Some of these necessities will be hard, and to all socialists unpalatable. Let us emphasise the hardest and most unpalatable of them all once more. The chief of the necessities of any economic policy which does not attempt to abolish the capitalist system forthwith, is to maintain the profitability of production, and actually to restore profitability, if that condition has been lost, to that section of the economic system which has to be left in private hands. For, let it be repeated, so long as capitalism is in existence, " only such things are produced as yield a profit ". If, therefore, profitability is not maintained, or restored—if it has been

lost—production will not take place, general unemployment will grow, the always threatening stagnation of contemporary capitalist society will descend like an overwhelming blight upon the community.

It is doubtful whether this fact has ever been adequately faced. The most moderate and "right-wing" socialist parties have failed to face it. The leaders of such parties have had great regard for the wishes of the dominant sections of the capitalist class. But these dominant sections have usually consisted in just those ultra-conservative, rentier, financial interests which will, if they have their way, destroy the prosperity of every other section of the community, often including the middle class, by the exorbitantly high rates of interest, etc., which they will insist upon receiving. There is all the difference in the world between an abject compliance with the wishes of this section of opinion, and a determination to make the wheels of production turn at full speed by restoring and maintaining the profitability of production in that part of the economy which must remain in private hands, precisely by means of overriding the interests of this rentier section of the capitalist class. The tragedy has been that while progressive, and even socialist, governments have been tender in the extreme to the most reactionary finance-capitalist interests, they have yet felt that there would be something immoral about themselves taking measures to restore profitability (if profitability has been lost) even to that section of the productive system which they knew that they could not, in the existing circumstances, attempt to socialise. The leading example of this deadly hesitation was given by the second British Labour Government, which held office between 1929 and 1931. That Government was faced by an all-round loss of profitability in the British productive system. The Labour Government did not, of course, cause this slump. It was world wide, and was due to the innate rottenness of a capitalist system which had long outlived its vigorous prime. But that did not prevent the Labour Government from being faced with the devastating consequences of the slump. It was a government which

had not the power to solve the problem by socialising British industry. The Government did nothing. It did nothing for two whole years, partly because of its fatal deference to the most reactionary section of monopolist finance-capital, but also partly because the Labour movement as a whole had never faced the hard fact that if capitalism cannot be abolished, the wheels of production must be made to turn for profit. Yet a failure to face this fact can only be a consequence of pure muddle-headedness. To adopt a hostile attitude towards profit in that part of the economy which must still be carried on by private enterprise is plainly disastrous. It can only lead, and has led in practice, to deadlock. Capitalism languishes, but no socialism can be organised to take its place. Production is carried on neither for profit nor for use; it is not carried on at all. The mass of the population cannot stand such indecision, for it produces the most intolerable sufferings. Men, women, and children go hungry because, while socialist production for use cannot be organised to take its place, conditions are produced in which capitalist production for profit must languish.

The people are unforgiving towards any government which allows such a deadlock to arise. They have not the slightest sympathy with such scruples and hesitations. And the people are right. For what, after all, could be more irresponsible than to fail to see to it that, whatever else happens, some form of production is carried on? It was this irresponsibility, in face of the overwhelming necessity to make, if it could not be immediately replaced, the economic system work, this lack of determination to overcome any and every obstacle to full employment, that destroyed utterly the German Government (which had socialist support) in the period immediately before Hitler's rise to power. It was this which dealt the British Labour Party a series of blows from which it has not yet recovered. It was this which terribly checked the parties composing the French popular front. It was their relative determination to face this necessity which gave the American New Dealers their triumph in 1936. It was their failure to

face it during 1937 which gave them their grave setback in 1938.[1]

The Task Before Us

Nothing else matters compared to this. If once bitter experience has aroused the suspicion in the minds of the people, including above all the industrial workers, that a progressive government lacks the determination and ability to regain or sustain reasonably full employment, that government and the parties which compose it are lost: and, what is more, they deserve to be lost. For what could exceed the irresponsibility of a lack of determination to provide the working population with employment, almost at all costs? Workers do not live on wage rates, but on wages actually paid each week; workers do not live on the large share of the national income which they would be getting if the productive system were working at full capacity; workers do not live on good intentions, or even on social justice; workers have few reserves and heavy responsibilities; even a few weeks, let alone months and years of unemployment, often mean irreparable suffering to them. Therefore workers care, and must necessarily care, more about jobs, about security and regularity of employment, than about anything else on earth. If once experience teaches them to associate slump, unemployment, insecurity and all its attendant horrors, with the progressive side in politics, then they will turn to almost any form of reaction, even if that reaction lowers outrageously their share in the national income. Not till they have recognised this fact will the progressive parties be fit to lead their respective communities; and not till then will the people dream of giving them the opportunity to do so.

This means that the progressive parties must become incomparably more determined, more resolute, and for that very reason more responsible, than heretofore. If,

[1] And it is the fact that, whether by luck or skill, both the Swedish Social Democrats and the New Zealand Labour Party have for the moment solved the problem, securing both full employment and an increase in the people's share of the national income, which gives them their supreme position.

say, a Labour government is not in a position to transfer any particular sphere of economic life to the basis of production for use, then that government must create and maintain such conditions that this industry, or service, will be carried on, and expanded, for profit.

It is indispensable that future progressive governments shall, at the outset, not only announce, but demonstrate by their actions, first, what spheres of economic activity they mean to remove, wholly, or in part, from private profit-making, and, second, that they are determined to maintain, when it exists, and actually to restore when it has been lost, the profitability of production over the whole of the rest of the economic system. Moreover, it will greatly assist the struggle of all the progressive forces and parties for power, if they can in advance convince the people that they understand the real nature of the economic problem which will face them when they form a government. They must show the people that they are determined that production shall be carried on, by one means or another come what may, and whatever obstacles and special interests have to be swept aside. If, and when, the profit motive fails, in whole or in part, then in this or that sphere of economic life direct production for use must be organised. But in those spheres in which private enterprise has to be left in existence, there the making of profit will not only be permitted, but the financial monopoly which to-day often actually prevents profitable production, will be broken.

So much for intentions. But we have seen that capitalism is now so rotten that it is always an extremely difficult matter to keep production going without expropriation and the organisation of socialist production for use. If you increase the share of the product going to the non-capitalist part of the population, you run into slump one way; if you decrease their share, you run into slump the other way! We have shown that the horns of this dilemma cannot, in principle, be avoided. But the main part of our argument has been devoted to showing that its effects can be, for some time, combated and offset by the combination of measures which we have considered. We came to the

conclusion that it was possible, for a time, by a combination of devices, which, taken together, seriously modify the nature of capitalism, to increase the purchasing power of the population, and so provide a market without increasing costs, destroying profitability, and so destroying the incentive of production. It is to this task that future popular governments must address themselves with inflexible determination.

Nor should socialists suppose that they are being untrue to socialism because they are maintaining, or even in some fields restoring, the profitability of production. For our analysis has shown that, paradoxically enough, this can only be done by the uninterrupted modification of capitalism. Capitalism (unless it embarks upon the Fascist policy of ceaseless Imperialist expansion, leading directly to endless war) cannot now hope to function without transforming its banking system into a national service; without allowing a substantial part of the incomes of the rich to be transferred to the poor; without paying out newly created money to the old or the young; without promoting the vigorous development of public and semi-public enterprises of various sorts. By doing such things as these, socialists will be "making capitalism work"; but when they have done them long enough it will no longer be capitalism that is working. Socialists may feel perfect confidence that the inner logic of any progressive programme must lead to socialism.

Possibilities and Limit of Success

Finally, what are the chances of success for the type of economic policy which has been proposed? Nothing could be more ridiculous than to claim that an expansionist policy is an infallible, patented scheme, which has only to be applied to give guaranteed success. What we are proposing is no cut-and-dried, inflexible scheme or panacea, to be applied in the same form in all circumstances. It is, on the contrary, a method of struggle. It is a particular strategy and tactics by which the ever-continuing struggle

of the people for a better life can be best conducted at the present juncture of events.

Once this is understood, it becomes clear that speculations as to the success to which such a policy may be expected to attain are more or less idle. The social struggle is too varied, unexpected, hazardous, for it to be possible to predict much about the outcome of particular phases of it. A thousand different, unpredictable, and often uncontrollable, circumstances will affect the degree of success which future progressive governments may achieve. The most that we can do is take note of what appear to be the maximum and minimum degrees of success which could attend the application of an expansionist programme.

It is, I am convinced, theoretically and in the abstract, possible to do a very great deal along these lines. If the type of policy which has been outlined could be fully applied and developed it would amount to little less than the harnessing of the economic system, as a whole, to the purpose of raising the standard of life of the people, while still leaving the predominant part of actual physical production to be undertaken for the sake of profit. Thus the houses would be built, the clothes made, the food produced, and most, though not all, of the other wants of man satisfied as they are to-day by private entrepreneurs motivated by the expectation of profit. But the money to buy the goods would have been put into the people's hands, in one way or another, by a publicly controlled financial system, operating, not as does, and must, the existing private financial system, to extract the maximum toll *from* the population, including the remaining independent entrepreneurs, but in order steadily to raise the national standard of life. Thus, though private ownership and profit-making would exist, they would exist, not, as they do to-day, as the final end and object of the system, but merely as a rough-and-ready method of getting particular jobs done under the control of a central direction which had the different, and indeed opposite, purpose of general popular enrichment. The whole character of economic life would be profoundly

altered if once a national and public banking and financial system could be unshakably established and set working on the lines we have discussed.

It would be disastrous, however, if either of two illusions were to be fostered in the mind of the reader by this suggestion of the very great possibilities of an expansionist policy. In the first place, it would be an illusion fatal to any hope of success to suppose that such a policy would not encounter the most formidable opposition from those who rule in Britain, and, though there they are less unchallenged, in America, to-day. Just because the success of an expansionist policy would lead to a basic change in the purposes for which the economic system as a whole was being run, it would inevitably be resisted to the utmost by the central, directing, and predominantly financial, groups who rule our communities, and who derive astronomical gains from so doing. Hence nothing could be more false than to suppose that the programme provided some way of avoiding the struggle of interests and classes. On the contrary, it is, I repeat, a proposed method for the more effective conduct of that struggle. Nor can it be claimed to have any particular bearing, one way or the other, on the momentous question of whether that struggle can, in Britain and America, be confined to non-violent forms.

An objection will at once occur to many readers. If this policy makes no claim to be able to avoid the utmost opposition on the part of those who control affairs to-day, then why not conduct the struggle from the outset with the object of the direct expropriation of the whole capitalist class, and the setting up of a complete socialist economic system? The answer is simple. It has been found, not in theory, but as a matter of actual, practical experience, that in such communities as Britain and America, millions, not only of the middle class, but of the workers themselves also, will not give their support to the direct attempt to establish socialism itself, which seems to them too abstract and remote a purpose. But these millions will support a programme of immediate demands for raising their standard of life. And our programme is precisely the method by

means of which alone these demands can be realised. (For, I repeat, realised they must be, and realised without a catastrophic slump in employment, if the support thus gained is not to be irrevocably lost again.)

In the same way, although the topmost circles of the ruling class will oppose the programme almost to the same extent as socialism itself, yet there are undoubtedly important intermediate sections of the population who, if they cannot be expected to give it support (in spite of the fact that it will bring them very great benefits), will not actively oppose such a programme as this—will not rally to the leaders of finance capital in the least in the same way as they would if the general expropriation of the owners of the means of production were in immediate question. In a word, the programme cannot possibly avoid the struggle, but it can join issue on ground upon which the popular, democratic, progressive forces are at their strongest and reaction is at its weakest.

The second illusion which it would be fatal to encourage would be the belief that this programme, even if it could be carried through with the very maximum degree of success, could establish a permanent economic basis for human society. It is obvious that it bears upon itself all the marks of the transitional and the provisional. (And if the sceptical French remind us that "nothing lasts like the provisional", we can only reply that it would be idle to speculate, even, on how long this sort of transitional economic system could persist.) Socialism is the sole conceivable basis for a new and far more developed stage of human development, now that capitalism is visibly failing. Socialism involves the taking of the means of production from the capitalist class, and that in turn involves a working-class power so complete as to be capable of making all resistance impossible. But all this cannot be achieved in one step. The immensely complex and arduous struggle of the working class for power—*i.e.*, for the power to abolish capitalism and establish socialism—cannot possibly be fought out all at once. Lenin, as usual, recognised this fact with the utmost clarity.

> "The socialist revolution", Lenin wrote, "is by no means a single battle; on the contrary, it is an epoch of a whole series of battles around all problems of economic and democratic reforms, which can be completed only by the expropriation of the *bourgeoisie*." (*Collected Works*, Vol. V, p. 368.)

The specific economic reform around which the next battle should be fought out by the progressive forces is "the banks for the people", as the basis for the type of expansionist programme developed in these pages. The campaign of which this battle is a part can only be completed by the achievement of socialism itself. But that is outside the scope of this book, which deals exclusively with the very next phase of the struggle in the particular circumstances of contemporary Britain and America. But I can see nothing in recent events which does not confirm the above view as to the necessity of absolute working-class power as a pre-requisite of socialism, a view to which I have subscribed in previous books.

The Continuing Struggle

So much for the maximum possibilities of success for this programme. But it is also, of course, possible that a Labour or other type of progressive government would fail to get this kind of policy implemented. The majority on which the Government depended might prove insufficiently reliable, the reactionary forces might succeed in defeating indispensable measures, such as the control of the balance of foreign payments, or the international situation might intervene decisively. In real life there can be no guarantee of success. Yet I am convinced that even in the event of failure, or partial failure, this policy would still prove itself by far the best for the progressive forces to pursue. For by struggling persistently and tirelessly, both in and out of office, to raise the standard of life of the population by means of this type of measures, they could not fail, at the least, to prevent the reactionary interests from using these methods for their own, opposite, Imperialist, and in the

last analysis, Fascist ends. For *some* system of central direction and control of production, operating mainly through the financial machine, will inevitably be instituted in Britain and America in the immediate future. If we fail to realise this possibility, and therefore inevitability, and dissipate our energies in struggling for objectives which cannot in the nature of things be realised in the next phase of development, all that we shall do is to leave the reactionaries free play to carry through the job in their way. And that means Fascism.

Fascism means operating the central controls in order to beat down, instead of to raise, the national standard of life, and to devote the gigantic resulting surplus to ferocious Imperialist aggression. If we concentrate every atom of our energy upon the active defence of the national standard of life, by means of the type of programme which has been here developed, we shall, even in the least favourable event, bar the way to the Fascist objective of impoverishment at home and war abroad. And if that way is barred, we shall in the end attain our own goal. For there is no third road.

PART II

THE AMERICAN NEW DEAL

CHAPTER XIII: ORIGINS OF THE NEW DEAL

Purpose of this Part

THERE has been one, and only one, attempt to apply an expansionist programme, in some respects resembling the programme developed in Part I, in a major, highly industrialised, capitalist economy. That attempt is represented by the economic policy of the two Roosevelt administrations which have held office in the United States of America since 1933. It is indispensable to compare the record of Mr. Roosevelt's New Deal with the type of programme outlined above. The object of such a comparison will not be to suggest that Mr. Roosevelt and his advisers offer us an example of how the thing ought to be done. On the contrary, the progressive forces, both in America and elsewhere, can learn quite as much from the failures and errors of the New Deal as from its achievements. The essential thing is not whether this or that part of the New Deal must be accounted a success or a failure, but that here we have, for the first time, a rich store of experience to guide us as to the real consequences of applying the type of measures discussed in Part I to a major capitalist economy. (Such measures have also been applied in smaller capitalist communities, notably in Sweden and in New Zealand. But however successful (and they have been on the whole much more successful there than in America) such measures have proved in these less complex communities, the lessons to be derived are far less important and relevant.)

For some, though not all, of the interrelated measures which we proposed in Part I have actually been applied in America since 1933. For example, by far the greatest programme of public enterprises for pacific purposes which the world has ever seen has been undertaken. The rate

of interest payable by all manner of borrowers, whether producers or consumers, has been considerably reduced. The rate of redistributory taxation as between the rich and the poor has been considerably increased. And, finally, large sums of what was in fact (though not in form) new money have been distributed to various sections of the population. Thus the first four measures of the programme of Part I were, to a lesser or greater extent, carried through in the America of the nineteen-thirties. But what of the other two measures—namely, the creation of a public and national, as opposed to a private and profit-seeking, banking system, and the control of the balance of foreign payments: measures which, we declared, were an indispensable foundation for an expansionist programme? The reader may be astonished to find that the progressive forces which were responsible for the American New Deal did not ever attempt to enact either of these measures. Does not this, it may be suggested, disprove the contention that they are an indispensable foundation to an expansionist programme? In the case of the control of the balance of foreign payments there were very special, and quite exceptional, factors in the situation of America in relation to the rest of the world which made this issue a far less important one than it would be almost anywhere else in the world, or at any other time. (Even so, Mr. Roosevelt did not hesitate to take the drastic step of devaluation in order, indirectly, to safeguard himself to some extent on this side. See page 180 below.)

In the case of the need to extablish a public, national, non-profit-making banking system, on the other hand, it will be our contention that the experience of the New Deal reinforces a hundred-fold, instead of refuting, the view that this is an indispensable foundation to an expansionist programme. The New Deal rested on no such foundation. But we shall find that it is precisely to this that we must trace the ability of the reactionaries to check, and then to drive back, the New Deal in 1938 and 1939. It was, we shall find, the lack of this foundation, or rather, to put the same point more politically, it was the failure

of the New Dealers to stand or fall, at the outset, on the attempt to establish such a foundation, which opened the New Deal to every kind of effective counter-attack and sabotage at the hands of the still securely entrenched reactionaries.

The Financial Crisis

It must not be supposed that the following chapters constitute a history of the American New Deal. In order to write such a history continuous observation of the policies of the two Roosevelt administrations would have been a necessity; and the author of this book has had no more than the opportunity to visit America on three occasions during the period, in 1933, 1935, and 1938. (Nor were these visits without their difficulties and distractions.) Here no more is attempted than to describe the New Deal as an example of an expansionist economic programme. There is no attempt to give any account of the major social reforms which have characterised the past six years of American public life, except in so far as these reforms have had marked reactions upon the economic situation.

The first Roosevelt administration came into office on March 4th, 1933, at the moment of the most extreme prostration which, it is safe to say, any capitalist economy has ever experienced in peace time. It is true that the level of American production, in common with that of most of the rest of the capitalist world, reached a low point in the summer of 1932, and then, for some months, began a very slow ascent. In distinction, however, to the fortunes of the other capitalist economies, an acute banking and financial crisis supervened, and the curve of production turned down again. In the spring of 1935 the production and distribution of goods and services, the very life-process of the community, almost appeared to be about to cease altogether!

Our first concern must be to describe how this banking crisis arose, and what were the steps which President Roosevelt took to deal with it. For it was in taking these

steps, which were forced upon him by the crisis itself, that the President laid down the financial foundations upon which the whole New Deal has been built. All through 1931 and 1932 a number of major banks which had made loans which, with the spread of economic paralysis, had become unsound, were getting into difficulties. These major banks now failed—they became unable, that is to say, to pay currency to depositors who came and asked for it. For they had neither the necessary dollar notes in their tills, nor the necessary deposits with their reserve banks, which could be turned at will into currency, nor any other assets which could at that moment be turned into currency.

The fact that the depositors of these banks could not get their money naturally terrified the depositors in all other banks. A demand for currency, and in the end for gold, far in excess of the proportion of their deposits which depositors habitually demand set in. Currency and gold began to flow across every bank counter. Between February 1st, 1933, and March 4th (the day of the inauguration of President Roosevelt) about one and a half billion dollars of currency were withdrawn from the banks in Federal Reserve notes, and $320 million in gold or gold certificates. In addition, $300 million worth of gold fled the country. Bank after bank exhausted the amount of its currency in hand, of reserves at the reserve banks with which it dealt, and of salable assets. There was the most precipitous rise imaginable in the desire for actual cash on the part of the American public. The public demanded, that is to say, to hold their money in the tangible form of paper notes or, if possible, gold, instead of in the intangible form of entries in bank books.

The banks could not pay out the currency for which their depositors asked because they had no right to use the power, possessed by the Government and the banking system as a whole, to create currency to any amount. It would have been perfectly possible for the banking system as a whole, had it been sufficiently closely knit, acting with the Government, to pay out in currency every

dollar belonging to every depositor of every bank. It is true that it would have been necessary to print many billions worth of extra dollar bills in order to do so. But that could have been done.

It is instructive to notice, moreover, that the printing of the dollar bills necessary to satisfy the desire for currency, raised to the point of frenzy, of the American public in the spring of 1933, would not have increased the total amount of money in existence in America by a single dollar. According to the statements of the Comptroller of the Currency, the deposits (demand and time) in all the banks of the United States in 1933 amounted, in round figures, to $34 billion. Let us suppose that every one of these depositiors had asked for the whole of his deposit to be paid to him in currency notes; that the United States Treasury had supplied the banks with the $34 billion worth of currency bills; that these bills had been duly paid over the bank counters to the depositors. All that would have happened would have been that $34 billion of bank money would have been destroyed and $34 billion of paper money would have been created. The total amount of money in the country would have remained exactly the same. There would not have been a dollar more or a dollar less with which to buy and sell goods and services. There is no reason to suppose that the prices at which goods were exchanged would have risen. For in order that prices may rise it is necessary that the total amount of money in existence shall increase, while its velocity of circulation remains the same (or vice versa). And in this case all that would have happened would have been that the kind of money would have been changed from bank money to paper currency, while its amount would have remained unchanged. As a matter of fact, the depositors, when they had drawn out their deposits in currency, and so had reassured themselves that they could get their money, would have had nothing in the world to do with their hoard of dollar bills but to re-deposit them in the banks. As will be noted below, the Roosevelt administration did contemplate, at one moment, doing something

which amounted to furnishing depositors with currency to the full amount of their deposits.[1]

What, we must ask, prevented Mr. Hoover in the last months of his administration from taking such a course as this? What induced him passively to contemplate the almost total breakdown of the exchange mechanism in America? The main reason, I believe, lay in the fact that to have issued sufficient currency to have met the demands of depositors in full in the spring of 1933 would have been a step which would have impaired to a serious extent the "independence", as it is called, of the American banking system. Such a step would have marked an important departure from the principles of a system of competitive private enterprise, regulating itself by the pull of profit and the push of loss. According to the principles of such an economy, each bank must be regarded as an independent unit, which must sink or swim according to the wisdom with which it is managed. If you come to the assistance of otherwise defaulting banks by offering them currency resources which they cannot themselves command, you spare from bankruptcy banks which have deserved such a fate; you blur the distinction between the well- and ill-managed enterprise; you impair the principle of the survival of the fittest by which the competitive system lives. Nor can it be denied that this is a serious consideration. Once you come to the assistance of particular distressed banks with unlimited currency resources, you create what is in the last resort a monopolised, non-competitive banking system. And the demand that such

[1] I should warn the reader that this is merely my opinion as to what would have happened in what is necessarily a hypothetical case. Some economists with whom I have discussed the matter believe that the sudden conversion of the bank money of a country into paper notes would enormously increase its velocity of circulation. If it did so, then naturally this would lead, either to a rapid rise in production, if there was a large supply of unused factors available, or, in conditions of full employment, to a rapid rise of prices. But I am unable to see what reasons there are for supposing that any such rapid rise in the velocity of circulation would take place. The issue is academic in the context of the America of 1933. But it might arise in a practical form at some other time and place.

a monopolised, non-competitive banking system should become publicly owned and controlled may well become irresistible.

Mr. Roosevelt's administration did not suffer from this inhibition, at any rate to the same extent. By March 4th (Inauguration day) it had become clear that the currency-creating resources of the Government must be somehow placed behind the banks if the American people were not, in their self-defeating stampede for currency, to deprive themselves of almost all their means of payment. Accordingly the administration arranged with the Federal Reserve Board that great quantities of additional currency should be placed in the tills of the banks. (At one moment the issue of special emergency script as a temporary means of payment was contemplated.) In his first radio address to the nation, delivered on March 12th, President Roosevelt described this step as follows (his action had by that time been confirmed by the Emergency Banking Act passed by Congress on the 9th):

> "The new law allows the twelve Federal Reserve Banks to issue additional currency on good assets and thus the banks which reopen will be able to meet every legitimate call. The new currency is being sent out by the Bureau of Engraving and Printing in large volume to every part of the country."

It seems, then, that large numbers of actual dollar bills were printed and shipped to bank-tills in every part of the Union. In the event, however, the creation of this unlimited supply of currency proved unnecessary. The mere assurance that the Government did not intend to allow the banking system to disintegrate, combined with the proclamation of a four-day bank holiday from March 6th to March 10th (which holiday was later extended for several more days for different categories of banks), during which the banks were closed and depositors could not even apply for their money, sufficed to turn the tide. The stampede for liquidity ceased. Depositors were willing to allow their money to remain on deposit with the banks. The

run was over. Indeed, so far from the supplies of new currency being needed, one and a quarter billion dollars of hoarded dollar bills came back into the bank tills, while between March 4th and March 30th, \$630 million of gold and gold certificates came back. The indication of a resolute intention on the part of the Government to put itself behind the banking system had made the actual provision of additional currency unnecessary.

In taking this action, however, the Government did not avoid taking a first step towards the creation of a unified banking system which must, almost in the nature of things, be put under a measure of public control. Two subsequent steps, by the first of which a system of government insurance for bank deposits was established, and by the second of which the powers of the Federal Reserve Board were substantially increased, marked the limits of the public control of banking which was in fact instituted, however. Thus the process stopped far short of the establishment of effective public control of the banking system.

The Foundation That Was Not Laid

Here, then, we meet at the outset the basic error, or failure, of the New Deal. All the most serious of its subsequent difficulties and set-backs can be traced to this initial error of omission. The New Deal, whether or not the New Dealers fully realise the fact, is an attempt to supply money capital to American producers, and purchasing power to American consumers, on a non-profit-making basis, while leaving the decisive part of production still to be undertaken for profit.

The sole adequate foundation for such an attempt is the establishment of a public, national banking system. So long as the main financial mechanism for the supply of money-capital—*i.e.*, the banking system—is left in private hands, to be worked in the expectation of profit, there is no solid basis for any such expansionist programme as the New Deal. For you cannot supply money capital *both* with a view to securing the highest possible return

to yourself, *and* in order to achieve the maximum possible economic welfare for the population as a whole. The two motives will again and again turn out to be contradictory.

This is not to say that it is impossible to embark upon an expansionist programme without the transformation of the banking system into a public service. On the contrary, the New Deal has shown that it is possible to do so. It proved possible, as we shall see, to do much, both by way of providing more and cheaper money-capital to American producers (reducing the rate of interest) and by way of distributing new money to the American people at large, while the banks remained ordinary profit-seeking corporations. By a number of ingenious devices, by which the State set up (through the Reconstruction Finance Corporation) the beginnings of an alternative banking system, and more especially by the State borrowing vast sums from the banks, the latter being induced to create these sums by an interest payment from the State, it was possible, for a time, to do many of the things which, as we saw in Part I, would become securely possible when the banking system had become a public service. But this roundabout, substitute method of doing things was extremely precarious. The building could be raised, but, because the foundations had never been properly dug, it was never stable. The vast and immensely potent private, profit-making, banking system, and the central forces of finance-capital which cluster round that system, were always there, untouched and menacing, waiting their opportunity to destroy what was, from their point of view, this gross misuse of the financial machine.

As we trace the checkered history of the New Deal, we shall find that these uncurbed forces of finance-capital did in fact continually counter-attack, and were by 1938 and 1939 in a fair way towards having achieved their object of wrecking and discrediting the whole progressive programme.

What, then, is it suggested that the first Roosevelt administration should have done in the spring or early

summer of 1933? As was suggested in Chapter X above, the particular method by which an effective public control of a banking system is established is not in itself of decisive importance, and will vary from time to time and place to place according to local and temporary circumstances. The simplest and most logical way in the American situation of 1933 would, no doubt, have been for the Government to buy out the shareholders of the major commercial banks throughout the country, giving these shareholders government bonds instead of their bank shares. But again it might have been sufficient, though hardly so effective, for the Government to have reorganised the banks, in the sense of making all bank stock in private hands into preference stock, earning a fixed dividend and carrying no control. Thus the equity of the banks alone would have passed into public hands, giving the Government the right of the appointment and dismissal of directors. A third, and much less satisfactory, but still possibly effective, method, would have been to leave the private banking system alone, but to have expanded the Reconstruction Finance Corporation so greatly as to make it into an alternative, parallel, and public banking system, which could have financed the Government's programme without recourse to the private banks. I do not, of course, pretend to the knowledge necessary to an opinion as to the exact measure for reconstructing the American banking system on a non-profit-making basis, which would have been appropriate for the America of 1933. But there cannot be the slightest doubt that some such measure would have provided the sole adequate foundation for the New Deal.

But, the reader will immediately ask, were the progressive forces in general, and the first Roosevelt administration in particular, in a position to enact any such far-reaching and comprehensive measure of public control as this? In 1933, though never perhaps subsequently, they were. I do not see how any unprejudiced observer of the American scene at that time can doubt that the forces of finance-capital in particular, and of big business in general,

had been so extraordinarily weakened and discredited by the catastrophes and scandals of 1930, 1931 and 1932 that both Congress and public opinion would have supported a thorough measure. No, it was not the strength of the reactionary forces, which were in extreme disarray, that prevented the crucial step being taken. It was the weakness, indecision, and above all lack of insight into the political and economic realities of the position, amongst the progressives themselves, that led to a failure to act. For it is far from certain that either Mr. Roosevelt himself, or still more his then entourage, had either the intention or the desire to make so real and permanent a modification of American capitalism as the establishment of a public and national banking system. There were certainly members of the administration who would have recoiled from any such step, as "socialistic". Big business and big finance, however total their discredit before the public, had their spokesmen within the administration and within Congress. Such forces as these would no doubt have made the enactment of a banking Bill on one or other of the above lines a difficult enterprise even for the apparently all-powerful Roosevelt administration of 1933. But, I repeat, it would have been a thousand times worth while for the progressives to have staked all on the attempt to get this prime foundation for all their plans laid down. For with it they would have been secure: without it they were doomed to, at best, partial and precarious achievements.

There is evidence, however, that it was above all a failure to understand the nature of the economic situation, rather than a failure of will-power and courage to put through drastic measures, which prevented Mr. Roosevelt and his colleagues from making their first care the creation of a public banking system. For in the early summer of 1933 the administration did, as we shall see, put through a measure—the National Industrial Recovery Act—which seemed to be, in many respects, at least as radical and far-reaching as a major banking Act. The tragedy is that the N.R.A. (as it was universally called), on which the first great reforming impulse of the administration was

concentrated, was a most confused and ambiguous measure. In its main provision (the codification of industry) the N.R.A. was, we shall see, futile when it was not actually pernicious. Yet this ill-conceived and ill-fated Act represented, in many respects, a far greater interference with the normal functioning of American economic life than even the most complete transformation of the banking system would have done. The N.R.A. involved the minute regulation of the affairs of tens of thousands of firms, and in the end broke down quite as much for this reason as because of the counter-attack of the Supreme Court. But the establishment of a national, non-profit-making banking system, while it would have been incomparably more effective for achieving and sustaining recovery, would have involved nothing of this sort. The truth of the matter is that while the N.R.A. involved interference in the affairs of tens of thousands of the smaller businesses of the Union, the replacement of a private by a public banking system would have involved interference in the affairs of a few score of the greatest financiers and business-men of the country. The tragedy is that the New Dealers did not, at that decisive stage, see that unless they faced squarely the necessity of breaking the dictatorship of these directors of the financial oligarchy, they could never put their programme onto a stable foundation. All this, however, deals with what might have been. We must now return to the story of what actually was.

The Dollar Devalued

When, on March 6th, the President closed the banks, he automatically ruptured the convertibility of American money, either bank money or paper bills, with gold. And his action was confirmed and approved by Congress in its Emergency Bank Act, passed in extraordinary session on March 9th. For some ten months the American currency remained detached from gold—as the British currency has been ever since the gold standard was abandoned in 1931. During these months the Reconstruction Finance Corporation bought gold at a steadily increasing price. The

President then believed, and still believed in 1937, when he wrote the notes to his Public Papers and Addresses, that this increasing price of gold helped to raise the price level.

> " The suspension ", he writes, " of gold payments, followed by a progressively rising dollar price for gold was therefore designed to contribute to the rise in commodity prices which we felt was essential to restore the purchasing and debt paying ability of the American people." (*The Public Papers and Addresses of Franklin D. Roosevelt*, Vol. III, p. 72, Random House.)

The suspension may have been so designed; but it is doubtful whether the gold-buying policy in fact raised commodity prices by a single cent. Once the convertibility of the dollar with gold had been ruptured, gold was no longer money, at any rate for internal purposes. Hence a rise in the price of gold could have affected all other prices but indirectly, through the influence of international payments. What, no doubt, is arguable is that it was necessary to rupture convertibility—to go off the gold standard—in order to carry through the programme of government spending and the other measures, which could, and did, raise prices over the next six months. It can be argued that if the programme had been undertaken while America remained upon the gold standard at the old parity, the rising American price level would have greatly decreased American exports and increased American imports. Moreover, and more immediately, an export, or flight, of American capital might have set in which would have created a massive adverse balance of payments. Thus there would have been a heavy export of gold. Such an export of gold would have compelled the banks to curtail their loans, and would therefore have put an end to government spending and forced a continuance of the deflationary process. For, as we emphasised so strongly in Chapter XI, Part I, an expansionist programme such as the New Deal will be wrecked if a flight of money is permitted to create a serious adverse balance of payments. And

one of the ways of combating this is to rupture convertibility, whether followed or not by a restoration of convertibility, at a devalued level. The devaluation of the dollar was, then, the alternative, effective in the special American circumstances, to those measures for the control of the balance of foreign payments which we described in Part I. We should not for a moment suppose, however, that such a measure would suffice in Britain, or, necessarily, in America on future occasions.

The convertibility of the dollar with gold was restored in January 1934, but it was restored at a level 40·4 per cent. below that at which it had previously stood. This means that if you had brought, say, an ounce of gold to the United States Treasury prior to March 6th, 1933, you would have been given, say, $100 in exchange for it, while after January 31st, 1934, you would have been given $168 for it. Now, there is no doubt about the effect of that. It gave a subsidy to all American exports and increased the tariff on all American imports. As a safeguard against a gold drain, this was obviously an effective measure. Moreover, it must be remembered that most other important exporting nations, including above all Japan and Britain, had already done the same thing, by substantially devaluing their currencies. There is no doubt that the monetary policy of the first year of the Roosevelt administration laid down a foundation upon which the whole recovery programme, which involved massive government expenditures, financed out of bank loans, *could* be built. (Unfortunately, however, the failure to create a public and national banking system had made it very doubtful if the structure *would* be built.) As a matter of fact, far from this programme resulting in a gold drain from America, which might have endangered the new parity, or, alternatively, have forced a curtailment of the spending programme, a vast and swelling tide of gold has flowed into America. This fact gives us the impression that the devaluation was unnecessarily drastic.

On the whole however, much sympathy must be felt

with the Roosevelt administration in making sure that its programme of recovery would not be interrupted by a gold drain. The history of Europe would have been very different if M. Blum's Government had taken similar monetary precautions in 1936. For not only did the Government of the French Popular Front fail to create, or even to attempt to create, a public and national banking system, but it made no attempt (until too late) to protect itself from the inevitable counter-attack of big business and high finance, by establishing control over the balance of foreign payments, or by devaluation, or even (voluntarily) by rupturing convertibility. The American Government could have given itself an even freer hand by refusing, as has Great Britain, to restore the convertibility of its money with gold, even at a devalued price. Or, finally, it could have taken steps directly to control the balance of payments. But these were evidently considered to be unnecessarily drastic steps. And rightly, for the 40 per cent. devaluation proved amply sufficient to enable the recovery programme of spending, and general expansion, to be carried through without there being the slightest hint of a flight of capital, and consequently of gold, from America. The margin of safety was wide, for the spending programme at no time raised American wholesale prices by more than 22 points (from an index number of 64 to 86, when the 1926 level equals 100, see Table, page 194), while the devaluation gave an export bounty and tariff of over 60 per cent. But the recovery programme was not carried through, and, because of the fatal failure to reorganise the banking system, could not be carried through, with as great a degree of vigour as the exceedingly solid monetary basis which had been provided for it, made possible. It is now time to turn to the recovery programme itself.

The Origin of Lending and Spending. The R.F.C.

It would be a great mistake to suppose that Mr. Roosevelt or his advisers started out in 1933 with any outline in their heads of an expansionist programme on the lines suggested

in Part I of this book, or, indeed, on any other lines. Never in history, surely, has there been a more purely pragmatic approach to the economic problem than that made by Mr. Roosevelt and his advisers. There have been, and still are, a bewildering welter of measures, initiatives, and announced intentions. Advisers with different, and mutually exclusive, economic and social philosophies come and go, or co-exist, sometimes peacefully, sometimes belligerently, within the administration. And yet out of this chaos there has unquestionably emerged an expansionist economic policy on the lines which we have discussed. But where that policy, and the body of doctrine that supports it, came from originally; who, if any one person, thought it out, or when, or why, I do not profess to know. In fact, the New Deal does not seem to have been the child of any individual or group of individuals. It has been hammered out by trial, and very much by error, by the clash of the forces which exist in contemporary America.

It cannot be said even that the use of "expansionist" methods began with the presidency of Mr. Roosevelt. On the contrary, the attempted stimulation of production by government lending to producers, of money which would not otherwise have been available, or would have been available only at a higher rate of interest, and, second, the toleration of a substantial budgetary deficit were both features of the last years of Mr. Hoover's presidency.

The federal deficits for the years 1931, 1932 and 1933 were all substantial. It is true that these deficits were incurred not by an increase in expenditure, but by a very large falling off in revenue. They were thus involuntary. In theory, however, if Mr. Hoover had followed strictly a policy of government non-intervention in economic affairs, he should have raised the rates of taxation sufficiently to keep the budget in balance. The second departure made by Mr. Hoover from the principle of non-intervention by the Government was of a more deliberate character. In January 1932 the Reconstruction Finance Corporation was founded. The corporation was

authorised to lend money to banks, insurance and mortgage companies, and railroads which had become distressed in the depression, and it did make such loans on a fairly large scale.

Here we have an example of something which we have already hinted at in Part I and which we shall take up in detail in Part III. Expansionist measures, by means of which the Government intervenes powerfully in the economic life of the community, can be used by big finance and big business for their own ends, as well as by the progressive forces for their ends. It all depends upon which side controls the Government at the time when circumstances themselves necessitate some kind of government intervention. If at that time finance-capital has its hands firmly upon the lever of power, the result will be, not a stimulation of production for the benefit of the people, but a tightening, in one way or the other, of the grip of the central monopolists on the whole economy.

This was the object, and it would have been the effect had big finance remained in undisputed power, of the activities of the Reconstruction Finance Corporation. Under Mr. Hoover R.F.C. loans were not made to producers in order to enable them to undertake new acts of production, to enlarge their plant, to buy more raw materials, etc. The R.F.C. loans were made, and used, almost exclusively to pay off the debts of large producers, and of bankers, which they were no longer able to meet. They were refunding or " bailing out " operations, as they are often called.

When the new administration of Mr. Roosevelt, representing different social forces, came into office, it did not, rightly, abolish the R.F.C., but sought to transform it in such a way as to make it a channel by which money could be lent above all to the smaller producers and to the consumers of durable goods. The corporation has been used throughout the period of the two Roosevelt administrations for a wide variety of purposes. Its functions were enlarged by several amending Acts, which empowered the corporation to lend money to smaller manufactur-

ing enterprises which, for one reason or another, could not get bank credit, or could not get it cheaply enough, in the ordinary way. The corporation was also used to furnish funds for other government lending and spending agencies, including, for example, the Public Works Administration, the Federal Home Loan Banks, the Home-Owners' Loan Corporation, the Federal Housing Administration, and the Rural Electrification Administration. The R.F.C. has also lent over \$1½ billion to various governmental agencies for distribution to the farmers under one head or another.

In estimating the extent to which the rich potentialities of the R.F.C. have, in fact, been utilised, an important question is that of the scale of its operations. Almost exactly \$2 billion were loaned (\$1 billion of it to banks alone) in the one year of the corporation's existence to March 3rd, 1933, under Mr. Hoover, while just over \$7½ billion were lent by the corporation between March 1933 and October 1937 under Mr. Roosevelt, to a much more diversified list of borrowers. Thus the rate of lending through the R.F.C. has actually been less under Mr. Roosevelt than it was under Mr. Hoover. These figures may cause us to question whether the R.F.C. was ever used to anything like its possible extent by the Roosevelt administration. Apparently the opposition of the bankers and their friends to any vigorous action designed decisively to force down interest rates by means of R.F.C. lending proved insurmountable. If that opposition had been resolutely overcome, the R.F.C. could have been used on a far greater scale than it was; it could have provided credits to entrepreneurs who might have been willing to undertake all sorts of enterprises if sufficient quantities of sufficiently cheap credit had been made available to them. However, at the bottom of the slump, in 1933, other and more direct methods for increasing consumers' demand would in any case have been necessary, however vigorously the R.F.C. had been used. It would not have sufficed to give even the cheapest and most plentiful credit to producers. For there was no consumers' demand for which to produce.

It was urgently necessary to create such consumers' demand. And the administration of Mr. Roosevelt moved rapidly to do so by the simple but effective means of distributing large sums of money, through various channels, to the bulk of the population.

CHAPTER XIV: N.R.A. AND A.A.A.

Two Forms of Lending: Farmers and Home Owners

IT WAS not, then, mainly by means of transforming the Reconstruction Finance Corporation from being an agency for the relief of big business in distress to a method of providing cheap credit to the American people generally, that the Roosevelt administration began to show its progressive character. It did so rather by a variety of methods of both lending and of spending (distributing money) directly to various sections of the community. Let us pass these methods in review.

The American Government began, in 1933, to distribute money to two classes of the population—namely, the farmers and the unemployed. In the case of the farmers the Government not only spent (*i.e.*, distributed money), but also lent. The farmers were dealt with by the Farm Relief Act which the President signed on May 12th, 1933. This Act was in two parts. The first part set up the Agricultural Adjustment Administration. The second part, called "The Emergency Farm Mortgage Act of 1933", was designed to reduce the rate of interest paid by farmers on their mortgages. The principle on which the Agricultural Adjustment Administration, or A.A.A., worked is well known. Substantial payments were made to farmers on condition that they restricted their production of all the basic farm crops and products in accordance with the directions of the Department of Agriculture. The money for these payments did not, however, come out of the Federal Treasury as such, but was raised by a special processing tax, imposed upon the output of these same farm products as they passed on their way to the consumer. We shall discuss this part of the Act in a moment.

The second part of the Act established the Farm Credit Administration, to which farmers could apply for loans

with which to pay off their existing mortgages. This measure appears to have resulted in a reduction of the interest rates paid by farmers from over 5 per cent. to 3½ per cent. Moreover, the average period of these government loans was raised to thirty years, instead of the five years, which was the average period during which the private loans had to be paid off. By September 1934 these government credit agencies held 37 per cent. of the farm mortgage debt of the country. This, the less spectacular part of the Act, is often forgotten. But its effect has been of great importance, since it has driven down the whole structure of interest rates on farm mortgages. It affords a model example of the use of government credit to depress interest rates at a particularly important point.

A month later the Government took similar action in the equally important field of the rate of interest paid by owners—the word "owners" should perhaps be put into quotation marks—of urban house property on their mortgages. The ability of such home-owners to continue to pay the monthly sums due on their mortgages—which were on the whole very high—had collapsed together with the rest of the American economy. On June 13th the Home Owners Loan Corporation Act was passed. Under this Act an important proportion of the mortgages outstanding were bought by a public corporation (which has become known as HOLC) from the banks, Trust companies and building and loan associations which held them. A new mortgage, for a longer number of years and at a substantially lower rate of interest, was then arranged with the home-owners. HOLC acquired one-sixth of the urban home mortgage debt. This meant that approximately one out of every eleven home-owners throughout the American cities had their mortgages re-financed under this Act. Up to June 12th, 1936, when its power to lend expired, HOLC lent just over $3 billion. Here again Government credit was boldy used to cut down the rate of interest at a point at which it bore with terrible severity upon the American people. The Reconstruction Finance

Corporation, the Farm Credit Administration, and the Home Owners Loan Corporation were the three main agencies by which the Government lent.

The Beginning of Spending

The first move in what has proved a main method of government spending was made by the passage of the Unemployment Relief Bill, which the President signed on May 12th, 1933. This Bill, for the first time, authorised the Federal Government to make direct grants to the States, and other local authorities, of money to be paid out to the unemployed. The amount voted was only a half billion dollars. But that was merely the beginning. A Federal Emergency Relief Administration for the carrying out of this programme was set up, and between June 1933 and August 1936, when the system of relief was changed, just over $4 billion was distributed through this channel. During the winter of 1933–34 this programme was supplemented by the Civil Works Administration, which spent just under $1 billion in four months.

The N.R.A.

By far the most ambitious effort of the administration at both "lending-spending" and, in addition, at the control of production, has not yet been discussed. This effort was embodied in the National Recovery Act, signed by the President on June 16th, 1933. It may be of interest to repeat the short statement made by the President on signing this Act.

> "History probably will record the National Industrial Recovery Act as the most important and far-reaching legislation ever enacted by the American Congress. It represents a supreme effort to stabilise for all time the many factors which make for the prosperity of the Nation, and the preservation of American standards.
>
> "Its goal is the assurance of a reasonable profit to

industry and living wages for labor with the elimination of the piratical methods and practices which have not only harassed honest business but also contributed to the ills of labor.

"While we are engaged in establishing new foundations for business which ultimately should open a return to work for large numbers of men, it is our hope through the so-called Public Works section of the law speedily to initiate a program of public construction that should yearly re-employ additional hundreds of thousands of men.

"Obviously, if this project is to succeed, it demands the whole-hearted cooperation of industry, labor and every citizen of the Nation."

The N.R.A., like the A.A.A., consisted of two parts. Part II of the N.R.A., like Part II of the A.A.A., was not concerned with the restriction or regulation of production, but with lending-spending. Just as the A.A.A. lent many billions of extra dollars to the farmers at substantially lower rates of interest than they had been paying or could get elsewhere, so the N.R.A., Part II, provided for the spending of \$3½ billion dollars on public works, and set up the Public Works Administration (P.W.A.), which has proved to be one of the most permanent of the New Deal Agencies.

It is, however, to the ambitious and extraordinary provisions of Part I of the Act which we must now turn. For it was for the sake of enacting these, apparently, far-reaching provisions that all attempt to transform the banking system was abandoned. As will be remembered, this part of the N.R.A. gave power to the Government for the "codification", as it was called, of industrial production in the United States. The procedure was for the employers, typically organised in a Trade Association, plus such representatives of Labour and the consumer as could be found, to submit to representatives of the Government a "code", laying down the conditions within which alone a particular industry could in future be conducted. The provisions

of the codes varied in detail, but the principles upon which they were based were common to every code. Briefly, hours of labour were reduced; child labour was eliminated; wage rates were raised; and prices were raised. This last, and all-important, purpose was achieved by the partial, or in some cases almost complete, elimination of competition from within the industry. The code authority would, typically, fix a minimum price below which the goods or services produced by the industry could not be sold. Nourse and Drury, of the Brookings Institution, in their *Industrial Price Policies and Economic Progress*, tell us (p. 242) that 79 per cent. of the codes had such minimum price provisions, in one form or another; in addition, 50 per cent. of the codes of the major manufacturing industries used the other method of raising prices, by inserting provisions which could be used to limit production. Once a code had been approved by the administration it had the force of law; violations of its provisions could be, and were, punished by the courts. In the end, 557 codes, with 184 supplementary codes, covering 95 per cent. of all industrial employers of the United States, were approved and given the force of law.

This remarkable provision quite overshadowed in importance every other aspect of the Act. Even such wholly admirable clauses as those which abolished child labour and decreased working hours proved of merely secondary importance when compared with the statutory powers for the general regulation of industry, and above all for the regulation of prices, which were conferred upon the code authorities. Nor can the conclusion be resisted, now that we can look back upon the effects of the Act, that this all-important provision had, in practice, reactionary consequences. This need not necessarily have been so. It is possible to imagine circumstances in which such a scheme would be progressive. It would be so if the authorities upon which these drastic powers were conferred were themselves in popular and democratic hands. But this was emphatically not the case in the America of the N.R.A. period. On the contrary, the code authority,

which was set up to administer each code, was almost without exception dominated by the Trade Association of employers in that industry. The degree of effective representation secured by either labour or the consumers was extremely limited. The administration of the codes lay in reality in the hands of the employers. This, I repeat, need not have been so. If the industrial workers had at that time possessed an active trade union movement, existing unions, where they existed, or new unions where unions did not exist, taking advantage of the well-known Clause 7A of the Act, could have organised effective labour representation on the code authorities, and changed the balance of power in these bodies. But the code authorities of the N.R.A. were in fact dominated by the well-organised employers. Here we have a combined instance of how a particular measure may have an opposite character and opposite consequences, according to the balance of social forces existing in the community at the time of its application. The machinery of the N.R.A. *could* have been used by the American trade unions in particular, and by the American democracy as a whole, for progressive ends. But in the actual circumstances of the America of 1933–34 it was used by American capitalism for an attempt to thwart the whole purpose of the Administration which sponsored it. American capital attempted to use the N.R.A. for the time-honoured purpose of bringing "revival" by the simple method of decreasing the share of the national product going to the American people and increasing the share going to American capital. And it was enabled to do this because of the lack of insight into economic reality shown by the American progressives.

Economic Consequences of N.R.A.

We must now consider the economic effects of this remarkable measure. Nourse and Drury sum up the economic intentions of the National Recovery Act in one comprehensive phrase: "it sought to stem the tide of price decline and raise the purchasing power of the masses."

The more we consider that sentence, the more adequately it seems to express the basic contradiction that lay at the root of the N.R.A. In the conditions of 1933 it was intelligible, and indeed in my view indispensable, to attempt to stem the price decline. But it was not intelligible to suppose that in so doing you would (other things being equal) raise the purchasing power of the masses. For obviously (if other things had been equal) the price decline was itself a most effective method of raising mass purchasing power.

It will be convenient to show here the movement of American prices throughout the New Deal period, since we shall have to refer to these price movements in subsequent chapters. Here is the cost-of-living index prepared by the Department of Labour.

(Average of 1923–25 = 100)

1929 June	99·1	1934 June	78·2
Dec.	99·6	Nov.	79·1
1930 June	97·7	1935 July	80·4
Dec.	93·8	Oct.	80·7
1931 June	88·3	1936 July	82·0
Dec.	85·1	Dec.	82·4
1932 June	79·7	1937 June	84·5
Dec.	76·6	Dec.	84·5
1933 June	74·5	1938 June	83·3
Dec.	77·2	Sept.	82·7

Wholesale prices moved as follows during the same period.

(Department of Labour Index 1926 = 100.)

1929	95·3	1936	80·8
1932	64·8	1937	86·3
1933	65·9	1938 (Nov.)	77·5

It will be seen that between December 1929 and June 1933 the cost of living dropped by some 25 per cent.

Therefore if any worker's (it is doubtful if there were any) wages had remained uncut during the period of

price decline he would have had his purchasing power increased by 25 per cent. The trouble was that this method of increasing purchasing power had failed. It had failed because the price decline had made it unprofitable to operate about half the productive resources of America, thus reducing the total number of workers who were receiving any wages at all from almost exactly 48 million in September of 1929 (the peak) to just over 36 million in March 1933. (Unemployment had gone up to over 14 million because of a 2½ million growth in the available labour force in the meanwhile.) It had also failed because the wage rates of the overwhelming majority of the still employed 36 million workers had been substantially reduced in an unsuccessful effort to maintain the profitability of production by cutting costs.

Contrary to the no doubt sincere belief of the President, what the N.R.A. could do was, by raising prices, or at the very least arresting their decline, to help restore profitability to industry. But in so far as it did this it must reduce, or at the very least arrest the growth of, the purchasing power of the still employed 36 million workers. This does not mean that anything which in the conditions of 1933 reversed the drop in prices would not increase the total purchasing power of the American people, since it would more than offset its effects on the real wages of the 36 million employed workers by the degree to which it would increase employment and stop the wage-cutting process. The N.R.A., however, joined with its comprehensible attempt to restore profitability (by means of reversing the decline of prices) its flatly contradictory measures for raising wage rates, reducing hours, improving conditions of work. Naturally all these measures involved an increase in costs. Hence, taken by themselves, they would, in the conditions of 1933, when there existed almost no profit margins at all, have closed down most of the remaining half of the American productive system. They would have increased the purchasing power of any worker left in employment; but there would have been few, if any, such workers. Hence the question of the net effect

of the N.R.A. on the economy turns on the issue of whether the codes raised costs (and therefore the purchasing power of the still employed population, which largely constitutes costs) or prices most. If N.R.A. raised costs more than it raised prices, it made production still more unprofitable (and if it did that, the fact that it would have increased the purchasing power of the workers if they had remained in employment was irrelevant; for under capitalism they could not have remained in employment). If it raised prices more than it raised costs, it made production more profitable (and if it did that, the fact that it reduced the purchasing power of any fully employed worker was also largely irrelevant, for it would bring so many workers back into employment as to more than compensate for this).

In his statement on N.R.A. of June 16th, 1933, President Roosevelt said: "If we now inflate prices as fast and as far as we increase wages, the whole project will be set at naught." It would be to over-simplify the problem to say that the exact opposite of this was the truth. For over a period of years the rising productivity of labour makes it possible, as we have seen, to raise real wages without raising costs. But it remains true that at the given moment of the introduction of the N.R.A. just the opposite of what the President asserted was true. If prices had *not* been inflated rather more than wages were increased, the whole project would have been baseless!

Which did N.R.A. do? At the end of its first year of operation (and this was the period during which it was exercising a considerable influence), Mr. Richberg, the N.R.A. administrator, reported (August 27th, 1934) that wages had increased in the past year by 8·5 per cent., while the cost of living had risen by 9·6 per cent. In a word, the purchasing power of an employed worker had been reduced by 1·1 per cent. (According to the above table, the cost-of-living index had risen from 74·5 in June 1933 to 79·1 in December 1934.) If we accept Mr. Richberg's figures, it seems that the N.R.A. in itself did not alter the purchasing power of the employed workers very much (for cost-of-living figures are not so exact that we can regard

a change of 1·1 per cent. as very significant.) Thus a *prima facie* case can be made out for the assertion that the N.R.A. had no pronounced effect, one way or the other, on the balance of the economy.

At the same time, who can doubt that the President's *intention* of raising demand for the ultimate products of industry by increasing mass purchasing power was an absolutely correct one? This, and this alone, was, and remains, the sound road to recovery. Attempts to re-stimulate the capital-goods industries directly are grossly unsound compared to this (for all the weight of opinion which takes an exactly opposite view). The only sound basis for the full employment of the working population is sufficient purchasing power in the hands of the people to clear the market of consumers' goods. All that the N.R.A. experience demonstrates is that it is quite impossible, at any rate at the bottom of a slump, to increase mass purchasing power by a method which at the same time increases the costs of production to an equal degree. You must find some way of increasing the money in the hands of the ultimate consumers without increasing the costs of the producers. We have seen that such methods exist, and Mr. Roosevelt's administration was already employing some of them by the summer of 1933. All such methods come under the heading of lending-spending.

Mass Pressure Intervenes

It was, as we shall see immediately, these direct lending-spending measures, and not the N.R.A., which began to have a highly beneficial effect upon the American economy during the ensuing period. Our verdict upon the N.R.A. must, then, be decisively adverse. In spite of the excellent intentions of its sponsors, and in spite of the excellent reform provisions, such as the abolition of child labour, contained in it, the economic effects of its main, code-making, provision were reactionary, when they were not simply self-contradictory. Yet it was for the sake of this pretentious measure that the all-important project of

transforming the banking system was set aside. This is the central tragedy of the New Deal. Fortunately, however, there remained the other and simpler method of lending-spending by means of which much could be, and actually was, accomplished.

It must not be supposed, however, that better economic advice began to prevail in the counsels of the administration, and that the N.R.A. was gradually superseded by straightforward lending and spending. Such a suggestion would give a wholly unreal impression. What happened was, on the contrary, that resolute and vociferous mass pressure from the American people—from the farmers and unemployed in particular—forced the administration to relieve the distress. There is no evidence that the New Dealers of that period realised that the paying out of the vast sums of money imperatively necessary to prevent the starvation of literally millions of American citizens would be, by far, the best measure which they could take for producing the prayed-for revival. On the contrary, the Washington economists were in many cases extremely alarmed at the consequences of " lavish spending ". But this did not prevent every extra dollar which the Government put into the hands of the farmers and the unemployed from having this immensely beneficial effect. Here we have another example of the decisive effect of really powerful mass pressure. It must be granted, however, that the Roosevelt administration did very readily yield to this pressure. And, at a later stage, the New Dealers came to realise that in so doing they were taking an effective step towards recovery.

A stream of money began to flow along various channels into the hands of the American people. The farm mortgage section of the A.A.A. put increased purchasing power into the hands of the farmers, by reducing the rates of interest which they had to pay. The House Owners Loan Corporation did the same for house owners. The Reconstruction Finance Corporation was making loans to purchasers of various sorts. The more than a million workers who were given wages under the public works

section of the N.R.A., plus the workers and farmers who were given relief under the various unemployment relief Acts and schemes, all had their purchasing power increased. But none of these sums of money represented anybody's costs. Hence they did not necessitate (though their mere expenditure might have provided the excuse for) a rise in prices. Where such monies actually came from we have considered in principle in Part I, and in Chapter XVIII of this Part we shall observe where they came from in practice in the American experience.

The End of N.R.A.

It will be recalled that the problems raised by the administration of the N.R.A. became increasingly baffling. In particular the code-making authorities were dominated by the employers, and were used, predominantly, for the cartelisation of American industry; for the elimination of competition, that is to say, and the creation of that particular kind of monopoly, hitherto more common on the European continent than in America, represented by the cartel, or price ring, as distinct from the amalgamation, or trust. Clause 7A, which should have been a charter of labour, was not adequately utilised by the then existing leadership of the American trade union movement, and such attempts as were made to use it were bitterly fought by the employers. Prices tended to rise, and consumers' complaints became serious. At the same time extreme difficulties of enforcement arose, particularly in those trades—and they are exceedingly important—which are still carried on on a relatively small scale. As the depression lifted and production again became more profitable, restrictions of production which had at first been welcomed as a protection against catastrophe came to seem to many employers to be irksome restraints. There is general agreement that by the spring of 1935 the Act had become widely discredited. In the June of that year the Supreme Court of the United States declared the Act to be unconstitutional.

The A.A.A.

The life-history of the A.A.A. was somewhat different. It appears to be true to say that this Act, regarded from an administrative point of view, worked much better than the N.R.A. Its broad purposes were similar. It was proposed (and this was accomplished to a considerable extent) to raise agricultural prices by decreasing agricultural production. Farmers were paid sums of money if they entered into agreements to restrict their production to an extent indicated to them by the Department of Agriculture. The money was raised by means of a tax placed upon the food consumed by the urban population, levied at the first possessing of the particular foodstuff (as, for instance, at the milling of the wheat). However repulsive such a programme may seem; however much we must recoil at the restriction of the production of foodstuffs in a community a substantial proportion of the people of which were gravely under-nourished; however little such a programme could possibly contribute to any general increase in purchasing power, yet it must be admitted that there was one genuine problem which it was well designed to meet. In addition to the general and tragic inability of the American people to consume, in 1933, more than half of their potential production of goods and services, there existed a long-standing and ever-growing disproportion between the share of what national income was still being distributed which went to the farmer and the city population, respectively. And this disproportion the A.A.A. could, and no doubt largely did, correct. It directly increased the farmer's real income at the expense of the city population's real income. And no doubt this was in itself equitable; for the pendulum had swung far indeed in the other direction.

At the same time we must, surely, object strongly to any exclusive concentration upon such a re-division of the national income between different sections of the working community. For what was really wrong was that the national income as a whole had fallen far too low. The best way to help the farmers would have been to pay them

money unconditionally—to wipe out their indebtedness, for instance, and thus to give them their fair share in direct relief, while simultaneously increasing the purchasing power of the urban population so that they could buy enough food to keep the farmers busy. The money should have come from the same source as came the money for public works and urban relief, *i.e.*, the general funds of the Treasury (in Chapter XVIII we shall describe where this money came, and comes, from). In the event the fate of the A.A.A. was similar to that of the N.R.A. On January 6th, 1936, the Supreme Court ruled the whole of the regulatory provisions of the Act to be unconstitutional, and they ceased to be enforceable at law.[1]

The Supreme Court's Amputations

Thus by the beginning of 1936 almost the whole regulatory side of the New Deal had been destroyed by the Supreme Court, leaving in existence only the lending-spending side (the reform side of the New Deal, including such major measures as the Social Security Act, the Labour Relations Act, the Wages and Hours Act, etc., was meanwhile slowly taking shape). The question at once poses itself, Was it a good thing that the Supreme Court struck down the N.R.A. and the A.A.A.? In the case of these particular schemes for the regulation of production, it is impossible to answer anything but Yes. This does not mean that the then majority of the Supreme Court was actuated by other than the most reactionary motives. It merely means that these particular attempts on the part of

[1] The A.A.A. was, however, replaced, and in a sense continued, by a scheme for paying farmers to restrict their production as a part of a soil-conservation programme. This second A.A.A. was clearly less objectionable than the first, since it linked agricultural restriction to a real and vital social objective—that of soil conservation. Again, in the case of two major American crops—namely, wheat and cotton—there would probably be a real need for a reduction in production, even if the American people were fully employed. But once that objective was achieved, the farming problem would begin to solve itself, by means of the immensely increased demand for the more specialised types of farm produce (*i.e.*, meat, vegetables, fruit, etc., etc.) which would arise.

the progressive forces to harness the American economy to the job of raising the standard of life of the American people were ill conceived originally, and had, especially in the case of the N.R.A., become, to a large extent, perverted for reactionary ends. Thus it was probably a good thing, on the whole, that they were destroyed altogether, and the progressives left to concentrate their efforts on the other aspects of their programme. Certainly the New Deal as a whole has become more progressive since the disappearance of the N.R.A. and the first A.A.A. Since then the New Deal has resolved itself into, on the one hand, an effort to get recovery (*i.e.*, to maximise the national income and raise the level of employment) by a lending-spending programme, and, on the other, to redistribute the national income more equitably by means of social reforms such as the Social Security, Wages and Hours, and Labour Relations, Acts. And its character has become far more clearly apparent to both reactionaries and progressives. Inevitably, the former have lined up to oppose, and the latter to support, the New Deal far more clearly than was the case during N.R.A. and A.A.A. phases. (See Notes.)

CHAPTER XV: THE 1933–37 RECOVERY

The "Net Contribution"

WE HAVE noted that during the year 1935 almost the whole of the regulatory side of the New Deal was destroyed by the Supreme Court. During this period the Supreme Court played the part of the main instrument by means of which American big business and big finance waged its fierce struggle against the progressive forces. Nor is this judgement modified by the view expressed in the preceding chapter that the N.R.A. and the A.A.A were in themselves misconceived moves on the part of the progressives. The whole attitude of the Court made it clear that unless this formidable last ditch of reaction could be carried, or at least turned, no further progress could be made. Hence during 1936 and 1937 the political struggle centred on this issue, and, after various vicissitudes, ended in the loss by the reactionaries of their position of dominance in the Court.

No attempt is made in these pages to give any account of this vitally important struggle. Nor is any account given of the series of reforms which had been passed during the first phase of the New Deal, such as the Tennessee Valley Authority development, or the establishment of the Security and Exchange Commission, for example. These measures had to be defended from attack. In addition, further major measures were put through, in the face of furious opposition, in the later phase. Such measures were the Social Security Act, the Labour Relations Act, the Wages and Hours Bill, and the setting up of the Works Progress Administration. What concerns us here is that the years from 1933 to September 1937 were years of growing and substantial economic recovery. Nor must the connexion of this fact with the ability of the administration to overcome formidable reactionary resistance to the enact-

ment of the above reforms be missed. The political strength of the administration reached its zenith with the triumphant re-election of Mr. Roosevelt, and an overwhelmingly Democratic Congress, in November 1936. And the economic recovery reached its peak point at that same moment.

It was during the years 1935–36–37 that the underlying theory of what had become, largely as a result of the pressures and counter-pressures of the social forces within the Union, the economic policy of the administration was worked out by the Washington economists and administrators. That policy is often called a compensatory fiscal policy; or the policy of the "net contribution". The net contribution to purchasing power is perhaps the distinctive concept which has emerged from Washington.

Mr. Roosevelt's great new expenditures naturally resulted in large budgetary deficits, which amounted to the following figures in each of these years of his administrations: 1934, $3·6 billion; 1935, $3·0 billion; 1936, $4.3 billion; 1937, $2·7 billion.

These figures may be taken to represent, in broad outlines, the excess of money paid out from the Federal Treasury over the sum paid in. However, the figures of the formal government deficit, for various statistical reasons (such as the existence of inter-departmental payments, certain payments which do not create income for anyone, certain receipts and expenditures outside the budget, which yet reduce and create incomes, etc.), do not tell us exactly how much extra money, and therefore, in the absence of a change in prices, how much extra purchasing power, the Government is year by year putting into circulation.

The best Washington calculations appear to show that the Federal Government made the following net contribution to purchasing power in the above years: 1934, $3·2 billion; 1935, $3·4 billion; 1936, $4·1 billion, 1937, $985 million.

It will be seen that while the two sets of figures follow the same general trend, yet there are important differences between them (for instance, the smaller contribution to

purchasing power made in 1937 than might be expected from the crude Budget figures).

Now, whatever might have happened; whatever other dynamic factors, such as great private investment on the development of a new invention, or the opening up of a major new market and field of investment overseas, might have brought recovery, what *did* in fact cause the recovery from 1933 to 1937 was this substantial net contribution to purchasing power made by the Government. In that precise sense government spending was "the cause" of the recovery; it was the cause in the sense that it was the variable, dynamic factor in the situation; it was the change which, since other things were, more or less, equal, altered the whole picture. But this does not mean that the other factors need necessarily have been equal, that recovery might not have come in some other way. For instance, if the world demand for American exports had risen by, say, an extra $3 billion a year, that would have done just as well as government spending, to provide the initial impulse which would, by repercussion, have increased activity throughout the system. Again, if the private corporations and individual capitalists had supposed that it would be profitable for them to borrow and spend an extra $3 billion a year, over and above what they did borrow and spend, then the banks would have been just as glad to create the necessary new money for them as for the Government. And the effect on the economy would have been just as stimulating. However, all this is in the nature of "if ifs and ands were pots and pans" (though we should have to reverse the sense of the rhyme, and write "there *would* be work for tinkers' hands"). The demand for American exports did *not* rise by an extra $3 billion a year; the private corporations did not borrow and spend that extra $3 billion. What happened was that the Government borrowed and spent it. Thus, whatever else *might* have happened, and in some people's opinion would have happened in other circumstances, the Government's spending was in fact the cause of the recovery.

It is important to notice both the extent and the limita-

tions of this four-year period of recovery—from, say, March, 1933 to March, 1937. In the first nine months of 1937 the Federal Reserve Board index of production (which appears to be regarded in Washington as the main, though of course not the sole, economic barometer) averaged 116 (the average of 1923–25 is 100). This contrasts with an average of 64 for the whole year of 1932 (this is the low) and 121 for the first nine months of 1929. Thus we can say that the recovery of the middle thirties brought production back from a low point of just about half its 1929 level, to within 5 per cent. of that level. If we take the figures of the national income we get nearly the same picture. The national income was $81 billion in 1929, $40 billion in 1932, and, at the rate of, $72 billion in the first nine months of 1937. Allowing for the fact that the price level was appreciably lower in 1937 than in 1929, we see again that the recovery had by 1937 almost, but not quite, restored the 1929 situation. But this, after all, was a considerably less brilliant achievement than it may sound at first hearing. In eight years not merely the working population but the productivity of labour had grown substantially. (The working population had grown from 48 millions to 53 millions; I know of no exact estimate of the growth of the productivity of labour.) Even exactly the same level of production and real national income in 1937 as in 1929 would have implied a much greater margin of unused and wasted capacity in the latter year. In other words, it is but a poor record to report that the greatest and most productive community in the world has in eight years made no economic progress whatever. This long-term tendency to stagnation is, of course, reflected in the unemployment figures. In 1929, with an index of production of 121, there were anything up to 3 million unemployed (according to the season; this is perhaps an irreducible minimum for a capitalist economy). In 1937, with an index of production of 116, there were just over 8 million unemployed. But of these 1·7 million were employed on public works of various sorts under the Works Progress Administration, and would therefore be counted as

employed, on the British method of reckoning. Since they count from 2½ to 3 million as the irreducible minimum of unemployment, the Washington economists estimate that in order to achieve "full employment" another 4 or 5 million men would have had to have been at work in the first half of 1937. In general, then, we may say that the 1933–37 recovery was on the one hand substantial, but on the other stopped short of the goal of full employment.

Special Nature of the Recovery

Let us next consider the nature of the recovery. Was it distinguishable from the numerous recoveries which have preceded it in the history of capitalism? Most authorities are agreed that it had one sharply distinguishing characteristic. It was initiated by, and grew upon the basis of, a rising demand for consumers' goods. The increased demand for producers' goods, or means of production, while it took place, was consequential upon this increased demand for consumers' goods. In previous periods of recovery an exactly opposite process has, almost certainly, been typical. Recovery has been initiated by a rising demand for producers', or capital, goods, and has fed upon this. The demand for consumers' goods has increased, but only consequentially. Let us illustrate this vitally important distinction with some figures. During the recovery of 1923–29 the total investment expenditures (both on new producers' goods, and on buildings and utilities of all sorts, and on their maintenance) was between $18 billion and $19 billion a year. In 1933 investment appears to have been down to $5 billion or $6 billion. In 1937 it had risen to perhaps $12 billion or $13 billion. We see, then, that it would be quite untrue to suggest that the money which the Government distributed to the population between 1933 and 1937 (over $3 billion a year) did not result in an increase in investment. It did. But it appears to have been an increase more or less severely restricted to what was necessary in order to be able to meet the increase in demand for consumers' goods. What

happened, typically, seems to have been something like this. A manufacturer of, say, bath-tubs found that the demand for his products, which had dropped away catastrophically in the slump, began, with 1933, to revive. By, say, 1935 his existing factory was just about capable of executing the orders that were coming in. In the meanwhile some greatly improved processes for making bath-tubs had come onto the market. His existing machinery was getting on in years in any case. The demand for tubs seemed to be still rising. He decided to instal the new process. He invested, that is to say, in so many dollars' worth of new capital goods. In earlier recovery periods (though by no means certainly in the twenties) something very different is believed to have happened. Even at the bottom of the slump when the demand for bath-tubs could easily have been handled by his existing plant, the courageous bath-tub manufacturer is believed to have been so impressed with the improved tub making process which had been developed, and so confident of the future, that he went out and invested in the new process. And in so doing, he (and this colleagues) distributed the money necessary to buy the new tubs when they were produced by the new process.

This throws light on the view, which we shall have to consider again and more closely in connection with the 1937 depression, that "a strike of capital" occurred. During the recovery period there was no strike of capital, in the sense that the entrepreneurs, corporations, and business men generally refused to turn out the consumers' goods and services necessary to meet the increased demand caused by the Government's distributions of money. This is worth noting, because it is sometimes suggested that any distribution of newly created money will merely cause the capitalist producers to raise their prices instead of increasing their production; that it will have this harmful effect even when there are unused factors in every sphere of production. The evidence of the 1933–37 recovery is striking in this respect. In spite of such a substantial distribution of new money, there was a very limited rise in

prices. If the reader will refer to the cost-of-living table on page 194 above, he will see that the total rise in the cost of living during the New Deal period was 10 points—from 74·5 in June 1933 to 84·5 in December 1937 (after which it began to fall again). But of this rise, four points occurred in the first year, to June 1934 and a further two points in the last six months, between December 1936 and June 1937. The four-point rise in the first year is fully accounted for by the price-raising provisions of the National Recovery Act, and cannot be ascribed to the Government's distribution of money. We shall describe the cause of the relatively rapid rise in the first half of 1937 below. Hence we find a period of two and a half years, from June 1934 to December 1936, during which the cost of living rose by only four points. And this was precisely the period when the Government was making its largest distributions of money (as the reader will notice, if he refers to the figures of the net contributions on page 204 above). It is indeed a striking fact that the American Government could put 3·2, 3·4, and 4·1 billions of extra dollars into the hands of the American people in 1934, 1935, and 1936 respectively, and yet cause no more than a four-point rise in the cost of living.[1] This example should never be forgotten when we are told that an expansionist policy will merely lead to an inflationary rise in prices, and so a lowering of the standard of life of the employed workers.

This does not mean that the increased money demand had the above almost negligible effect on prices; that would be inconceivable. It merely means that, in the absence of this newly created money, prices would have continued to fall. And although this would, of course, have raised real wages still further, it would have had a catastrophic effect on employment. The moral seems to be that in an

[1] It is true that the recovery period of the nineteen-twenties took place with no rise in prices. On the other hand the rising phases of many trade cycles have shown very substantial price rises. What the figures of the nineteen-thirties show is that a recovery produced by the novel method of putting very large quantities of new money into the hands of the consumers need not produce an unusual or important rise in prices.

economy such as the American, with vast latent productive resources and a rapidly rising productivity of labour, new money can be paid out on a very substantial scale, and for a prolonged period, if you begin the process at the bottom of a slump, without there being any danger of inflation (for inflation means nothing more and nothing less than a marked and cumulative rise in prices). In order that the capitalists should be able to raise prices instead of increasing production in such conditions, they would have to be organised in self-conscious monopolies in the most important lines of production. And, fortunately, things have not got that far as yet.

There was, then, no strike of capital in the sense that the capitalists would not produce the consumers' goods and services necessary to meet the increased demand. Nor was there even a strike of capital, during the recovery, in the sense that the capitalists refused to instal the new plant and machinery neccessary to meet demand for consumers' goods when that demand began to exceed their existing new private productive capacity. We have seen that, on the contrary, investment-expenditure probably doubled, going from some $6 to $12 billion between 1933 and 1937.

This does not mean, however, that, even as applied to the recovery period, the assertion that there was a strike of capital is an empty one. For the ordinary, normal process of recovery has been, I repeat, for the entrepreneurs and corporations, not merely to meet demand as it has come along, but to go out, re-equip, and extend their means of production in anticipation of demand, and thus, by their very act, to create that demand. After all, the recovery of investment expenditure in mining and manufacture to within $700 million of the 1929 high point ($3·282 billion as against $3·990 billion) was only a moderately good showing. And both utilities and railroads lagged more considerably. If there had been the same buoyancy in the economy as manifested itself in the earlier period, investment expenditure should have gone well above the 1929 peak, in response to the steady and progressive increase in demand for consumers' goods.

How substantial was that increase in consumers' demand can be seen from the table printed on page 293 of Prof. Hansen's valuable book—*Full Recovery or Stagnation*. In 1933 consumers spent only $42 billion. In 1937 they spent $63 billion. Moreover, if we were to compare the 1933–37 recovery with the pre-1914 recovery periods, instead of with the recovery of the nineteen-twenties, which, the more it is examined, turns out to have been essentially a building boom, we should, I believe, discover the existence of a much more marked failure of private investment expenditures to lead the way. In this specific sense—in the sense of an inability or refusal on the part of the American entrepreneurs—both corporate and individual, to lead the recovery, by expanding and renewing their means of production, there certainly was a strike of capital in the nineteen-thirties.

A further point immediately arises: was this "strike of capital" due to an attempt, conscious or instinctive, to wreck the recovery programme of a government which the employers distrusted and disliked? Or was it due to the fact that there really were no major remaining opportunities for investment, comparable to those of the last century, for example? Was it due to that tendency of the rate of profit to fall which we discussed in the first chapter of this book? It is important to try to envisage what is involved at this point. There is no question but that there remain many large fields of investment within such communities as Britain, and much more America, which will yield a sound return on investment. There is, first and foremost, housing; there are numerous technical developments; there are still foreign markets which can be developed or more intensively developed. But are such moderate inducements sufficiently powerful to pull a capitalist economy out of a slump by the old method of a new wave of private investment-spending on new capital goods? The entrepreneurs must, I repeat, have sufficient faith to go out and build means of production, for the products of which there appears to be, at the moment when the process of investment must begin, no visible demand

whatever. If really important new inventions are in the course of revolutionising whole spheres of the productive system; if a great industry is developing, such as the large-scale generation of electrical power; if transport is being revolutionised, as by, first the railroads, and then the automobile; or if vast new markets are being opened, as when the Indian market was thrown open to the Lancashire textile industry; if the home population is increasing substantially every year—if all or most of these factors are operating simultaneously, we can readily understand how the entrepreneurs will go ahead, even though they have just come through the discouraging experience of a slump. But do such conditions prevail to-day? And if they do not, and if they cannot be restored, can we expect the entrepreneurs to do much more than follow obediently the pull of demand?

How much emphasis should be placed on each of these alternative explanations of the failure of the entrepreneurs to lead the 1933–37 recovery? I have no doubt that both the political and the economic factor played real parts in causing that failure. But I am inclined to ascribe the greater importance, at any rate for the future, and in the long run, to the economic explanation. (See Note.)

CHAPTER XVI: THE 1937 SLUMP

The Counter-attack

WE HAVE described the substantial, but still partial, recovery which the New Deal's spending and lending had achieved by the autumn of 1936. There is no doubt that this recovery was, in the main, achieved by means of the net contribution to purchasing power of \$3·2 billion, \$3·4 billion, and \$4·1 billion which the Government had made in 1934, 1935, and 1936.

There were many and influential voices in and around Washington who argued that by 1936 the Government's spending and lending had done its work; that if that spending and lending were now curtailed, private investment-expenditure could be relied upon to take its place. It is a remarkable thing that this view, which of course represented the desires and interests of big business and finance, should have made itself vocal, and, as we shall see, effective, at the end of 1936. For this was the moment of the New Deal maximum political strength, and also of its maximum economic achievement. The New Deal had just scored an overwhelming electoral victory, and it had achieved the important degree of economic success which we have described. Paradoxically enough, however, the forces of finance capital seem to have been themselves strengthened by the measure of recovery which the New Deal, by strenuously opposing them, had achieved! (This is one of the eventualities which a progressive government using an expansionist technique should be prepared to meet.) Finance and big business had, inevitably, been financially strengthened by the recovery which had rescued them from the slump. But in their eyes any recovery which had been achieved by the progressive forces, and which had vastly strengthened these forces, was an intensely inimical thing. For them such a cure was worse than the disease. There could not be (and there never can be) the

slightest question of the leaders of finance capital being mollified by such a recovery. On the contrary, they used, and will always use, their increased strength to strike back.

In the case of the New Deal, the economic development of late 1936 and early 1937 helped the spokesmen of finance capital (and there were many such) within the councils of the administration to argue that the continuance of New Deal methods would be highly dangerous, that a return to "sound finance", far from precipitating a new slump, could alone avoid catastrophic inflation.

The Economic Situation

Up till, say, October, 1936, the recovery had gone forward evenly and steadily. The increased demand had apparently resulted for by far the greater part in an increase in the output of real wealth, and to a much lesser extent in an increase in prices (see page 194 above for figures). This, I repeat, is a most striking fact, and should never be lost sight of by those who fear that the only effect of distributing increased supplies of money, even when there are unused factors of production in every sphere, will merely be an increase in prices. It does not, I also repeat, mean that an increase in demand has no effect on prices; that is impossible. It means that more money in the hands of the workers and farmers will, in such conditions, prevent a further drop in prices, which, though it would, of course, increase the purchasing power of those people whose wages, or other money incomes, remained stable, would be, in practice, disastrous because of its ruinous effects in destroying employment, etc.

By the end of the last quarter of 1936, the reader will recollect, the index of production had risen from 64 (in 1932) to 116; the national income had risen from $40 billion to $71 billion. The cost of living had risen, as we saw, between June 1933 and July 1935 from 74·5 to 80·4. From then on to December 1936, during which period the major part of the increase in production

and income took place; it rose only another two points to 82·4.

In October, 1936, however, prices began to rise a little more rapidly. The cost of living rose three points (to 85) in the eight months to September 1937. Moreover, the wholesale prices of durable goods, which had not risen much since the end of 1933, rose slowly up to March, 1937. A change came over the character of the recovery. Because prices were rising, it appeared advantageous to business men to buy ahead of their needs, or even to speculate on a further price rise by buying goods for which they had no use, in the hope of re-selling them at a higher price. This development became important. During the year ending September 30th, 1937 (at which point the slump occurred), it is estimated that the stocks of goods held by business men—their inventories, as they are called—increased by $5 billion. In other words, during that year $5 billion more goods were brought from the factories than were sold to the ultimate consumers. This development was naturally self-generating. The tendency towards rising prices induced business men to pile up their inventories. Buying in order to pile up inventories tended to drive up prices. Such a situation is inherently unstable. For these goods, though they were being bought and paid for from the factories, were not being resold to the public. Hence the dealers who held them experienced ever-growing financial strain.

Observers of these untoward events were not lacking in Washington. What, these observers asked, had caused this unmistakably hectic note to appear in the hitherto sound and rousing chorus of recovery? Many of the experts came to the conclusion that the recovery, especially in the later half of 1936, had gone too quick. During that autumn full capacity was approached in one or two lines of production. By October the great steel industry was working at 78 per cent. of capacity, and 90 per cent. is, apparently, considered a practical maximum, if costs are not to rise sharply. A point was being reached at which it would be necessary, in order to increase the output of

consumers' goods, to build some more means of production. Goodness knows, there was no difficulty about doing that. There were still, we saw, some millions of fully employable men out of work. The majority of them could be turned on to increasing plant capacity. But it would take time before there could be an increased flow of consumers' goods.

It seems reasonable that it should be just at this point in a recovery that those who are seeking to control the situation should go easy. At an earlier stage in the American recovery—when there was still plenty of unused productive capacity in every sphere of production—it would have been quite safe to distribute very substantially larger sums of new money than were distributed. But as the capacity of existing plants was approached, it might have been reasonable to level off the net contribution, at any rate until and unless new productive capacity was coming into actual production of consumers' goods, in those lines which had reached their existing limits.

Now let us look again at the figures of the net contribution:

1934	\$3·2 billion
1935	\$3·4 ,,
1936	\$4·1 ,,
1937	\$985 million

The first glance tells us that just the opposite was done. The net contribution was raised slowly in 1934 and 1935, and then, in 1936, was suddenly pushed up to over \$4 billion. Would not you expect the appearance of just those hectic symptoms of rising prices, inventory accumulation, and general speculation, which you did experience, if you allowed the net contribution to develop in this way? In fairness to Mr. Roosevelt's administration, it must be said that the sharp increase in the net contribution in 1936 was an involuntary one. It was caused, apparently exclusively, by the passage of the Veterans' Bonus Bill over

the presidential veto. The veterans are calculated to have cashed at once about half of the nearly $2 billion of bonds which were given them. It is further calculated that in the absence of this veterans' distribution, the Government's net contribution for 1936 would have been $3·3 billion instead of $4·1 billion. Hence the bulge in the net contribution for 1936 was involuntary. However, it is difficult to resist the impression that the Government had not, at that time at any rate, thought out its policy of making net contributions to purchasing power in any thorough way. For the distribution of the veterans' money a year or two years earlier, when there were still plenty of unused factors, which the President actually prevented by his veto, would, I suggest, have been a first-rate measure, which would have substantially accelerated the recovery, and would not have had any disturbing effects.

Moreover, it would be to over-simplify matters to suggest that the level of the Government net contribution was the sole variable in the recovery equation as it stood in the autumn of 1936. Other factors powerfully affected the situation. In the first place, the level of private investment was a major factor. Had private investment itself not risen substantially in 1936 it would have been both safe and necessary to drive the Government's net contribution over the $4·0 billion level. Again, the European armament programmes are thought in Washington to have had a stimulating effect upon the level of American exports; and exports are another and equally effective stimulus to purchasing power, demand, and production. Thus it must on no account be suggested that the initiation and sustenance of a recovery by means of compensatory fiscal policy is a simple matter of arithmetic; that so much net contribution will bring so much recovery. On the contrary, there are several independent variables in the equation; those who control policy have to strive to vary the level of the Government's contribution in such a way as to deal with the other variations, which are constantly taking place, in, for example, the level of private investment-expenditure and in the demand for exports, while keeping constantly

in mind the degree of unused capacity existing in all important lines of production, and watching for the danger signal of rising costs and prices. Compensatory fiscal policy is an art in which administrators are but making their first tentative essays. But it is an art which must be mastered.

The Three Groups of Advisers

In 1936 the Government economists and administrators were divided in their counsel as to how the symptoms of rising prices were to be met. All those who, whether consciously or not, were the spokesmen of finance capital, argued that the appearance of rising prices, inventory buying, and speculation was both a danger signal that further government net contributions to purchasing power would produce an accelerating inflationary movement, and a sign that they had done their work. If, these authorities argued, the net contribution was now sharply curtailed, private investment-expenditure, encouraged by the speculative movement, would take its place. The economy would have regained its auto-motive principle; the pump would have been primed. The net contribution *was* drastically curtailed, as from January, 1937. We describe the consequences below.

A second group of economists and administrators took a view almost exactly opposite to the above. These experts—who were, of course, the spokesmen of the progressive forces which had created the New Deal—did not, indeed, deny that hectic and undesirable symptoms had begun to appear. They did not deny that the bulge in the net contribution caused by the payment of the veterans' bonus had been a factor in causing the price rise, the inventory buying, and the general speculation which had begun. They did not deny that it was regrettable that these symptoms had appeared. But they were convinced that the only thing to do was to ignore these symptoms, to continue, and indeed to increase, the spending programme. They believed that if this were done, the hectic, unhealthy

speculative symptoms would disappear of themselves; that the recovery would resume the even tenor of its way. They were convinced that if, on the contrary, the net contribution was sharply curtailed, no wave of private investment-spending would arise to fill the gap, and that consequently the economy would plunge into depression.

This progressive school points, and pointed at the time, to the fact that there was a kind of brief and uneasy period, lasting from March to September 1937, when the flood-tide of recovery had ceased to mount, but before the ebb had set in. If, it is argued, the net contribution had been raised, instead of dropped, during this period, on the one hand the hectic, inflationary signs of rising prices would not have continued, while, on the other, there would have been no slump in September 1937. This optimistic view is based on an analysis of the productive possibilities which existed in various key lines of production at that time. Consumers' demand, fortified by the size of the net contribution, by the strength of the export demand, and, as we have seen, by the secondary effect of the price rise itself (since this led to inventory accumulation), for a time outran the supply. Therefore the rise in prices could be stopped either by a decrease in demand or an increase in supply. The first school of thought proposed (and they certainly succeeded in doing so!) to stop the rise in prices by reducing demand. This second school of thought believed that the rise in prices would soon stop itself by an increase of supply. They believed that productive capacity in certain lines of production (machine tools is another good example) had been reached only temporarily in the autumn of 1936; that in modern conditions the continuance of a good strong pull of demand would rapidly expand productive capacity (so long, of course, as there remained a supply of unemployed workers, and there were still several million available). In the same way, the supply of certain basic raw materials, which was short, and was therefore causing a rise in these prices, could and would have rapidly expanded during the summer of 1937, if only demand had been kept up. This situation is often described in terms

of "bottle-necks". It is suggested that the short supply in certain key lines represents "bottle-necks" through which the flow of demand has to pass before it can raise the general level of productive activity. The progressive school believed that under a steady pull of demand, the bottle-necks would soon widen of themselves.

If, however, the volume of demand, in terms of goods and services, was now to be kept up to the 1936 level, the Government's net contribution must, other things being equal, be raised. For if prices had risen, then a greater number of dollars had to be in people's pockets in order to maintain the old volume of demand. In a word, the damage which had been done to purchasing power by the price rise could only be offset by a proportionate increase in the Government's net contribution. This was why these experts demanded that, far from the Government's net contribution being sharply cut during 1937, it should be held at or near a $4·5 billion a year level.

It is possible to distinguish a third school of thought amongst the Washington economists, which, while they quite as genuinely represented the progressive forces of the New Deal, as did the second school, were yet distinct from it. These experts were as convinced as were the members of the other progressive school that a drastic curtailment of the net contribution would throw the economy into slump. It would stop the rise in prices all right; but it would also stop the recovery. Hence they were strongly opposed to such a course, and stood shoulder to shoulder with the other progressive school in the demand that the Government's spending programme should not be curtailed. These experts were by no means confident, however, that the mere continuance, or, if necessary, increase of the Government's net contribution would in itself restore equable recovery. They were not confident that the economy would once again respond to the sustained pull of demand by resuming the upward trend of production; they feared that, on the contrary, a point had now been reached when the mere stimulation of demand, if not supplemented by

other measures, would raise prices rather than increase production. They pointed to the fact that the other progressive school admitted that spending would now have to be larger in order to meet the increase in prices which had already taken place. What if this increased spending resulted in another increase in prices? Would it then be argued that spending had once more to be increased? To do this would undoubtedly be to enter upon the first stages of an inflationary spiral. Spending, borrowing, deficits would have to mount ever higher to meet an ever-rising price level. And this spiral might start, these authorities supposed, even when substantial unused factors existed in most lines of production.

They feared that this might be possible because they attached great importance to the monopolistic character of much of contemporary American industrial organisation. They believed that many important American producers were in a position to raise prices even when both they and their nominal competitors still possessed unused productive capacity. And they believed that in the conditions of 1937 they would do so. These experts recommended that while government spending should be at least maintained, other measures, designed to prevent such spending from resulting merely in a rise in prices instead of an increase in production, had become necessary. I have used the phrase "that government spending should be maintained" instead of the phrase "that the net contribution should be maintained", since the first measure that these experts suggested was that redistributory taxation should be sharply increased. In other words, they argued (in this respect they were in agreement with the first school) that a move should be made towards balancing the budget, and towards the stopping of borrowing. But they urged that this should be done by an increase in taxation instead of by a cut in expenditure.

The objective of this proposal was twofold. In the first place, it is generally agreed (we examined the theory of this matter in Chapter V) that an increase in the taxation of the rich, if the money is then distributed to the population

at large, will have, in some respects, the same effect in stimulating demand as will the creation of new money. For the money is taken from those who have a low propensity to consume and given to people who have a high propensity to consume. To put the same point differently, if the money were left in the hands of the rich, it would not be spent, or even invested. The rich would attempt to hoard it. And in doing so they would withdraw it from circulation, and so, in the next cycle of production, reduce their own, and everybody else's, incomes by this amount. Thus redistributory taxation can be thought of as a forcible restoration of funds to the circulation. Borrowing has, broadly, the same effect. But these experts considered, probably shrewdly, that in the conditions of 1937 a continuance of heavy borrowing would be likely to start the spin of the spiral of cost and price increases, while the maintenance of the level of government spending by means of an increase in taxation would tend towards the continuance of stable recovery.

The second measure proposed by this school of experts was in the nature of an attempt directly to prevent the pull of demand resulting in an increase in prices. It was proposed that the Government begin a many-sided campaign designed to put pressure against price increases upon the monopolistically, and semi-monopolistically, organised industries. An attempt was to be made to prevent the directors of such industries from feeling in a position to take advantage of the strength of demand by increasing their prices instead of by increasing their output. In a word, these economists and administrators believed that the point had now been reached when some move towards the more direct regulation of production had become necessary.

The Counter-attack Produces Slump

It should be possible, after the event, to say which of these three schools of thought has been proved right. Unfortunately, in human affairs the verdict of history is

seldom clear cut. Only one of several alternative courses can be followed. We do not know what would have happened if any one of the others had been taken. Thus it is usually much easier, except on those rare occasions when a policy proves an unqualified success, to say who was wrong than to say who was right. At any rate, that is so in this case. What we do know, however, is that the first school of thought, representing the interests and desires of finance capital, had its way. There proved to be, even at this peak point in the fortunes of the New Deal, enough men, both in and around the administration, to force through a general counter-attack upon New Deal finance. They alarmed and confused those members of the administration, including, it seems clear, the President himself, whom they could not enlist under their own banners, leaving but a small minority of New Dealers to carry on, for the moment, a losing battle for progressive financial methods. During the spring of 1937 the administration began to show alarm at the speculative inflationary symptoms. Moreover, the administration seemed confident that the economy had now acquired sufficient momentum to enable it to go forward under the thrust of private investment, if the outside propulsion of the Government's net contribution was withdrawn.

This was the opinion which every spokesman of business was intent to impress upon the public at that time. The authors of a report entitled *The National Debt and Government Credit*, the calculations of which we shall use in Chapter XVIII below, believed this. On April 20th, 1937, a committee, including Donald R. Richberg (the ex-administrator of N.R.A.), Prof. Angell, the Columbia economist, and Miss Colcord (who made reservations) of the Charity Organisation Society, signed a report in which they said "that an inflationary boom may be the culmination of the present recovery now under way is becoming widely recognised. Commodity prices, the Federal Reserve index of industrial production, security prices and wages have all increased sharply in the last year. This situation makes it imperative to place the government finances on a sound

basis as rapidly as possible." Even as they wrote, the Government's finances were being put upon what these writers demanded as a sound basis. And within five months the American productive system had entered the sharpest slump in recorded economic history. Such major miscalculations as to the nature of the real dangers which beset the stability of modern economies must indicate that some important factor in the situation is being neglected. It is the submission of this book that this major neglected factor is the fact that the secular tendency for the rate of profit to decline has now become a major influence.

In the spring of 1937 the national finances were being put onto what is called "a sound basis" much more rapidly than was generally realised. It is true that it was not proposed to abolish the budgetary deficit completely in that year. Owing, however, to certain other factors, of which the most important was the inflow of funds to the Government from the insurance contributions which had been imposed upon workers and employers alike under the Social Security Act, the Government's net contribution to purchasing power was rapidly reduced from a high level to almost nothing. We shall see this more clearly if we supplement the annual figures of the net contribution given on page 204 with monthly figures for 1936, 1937, and the first six months of 1938. They were as follows:

1936	$
January	290 million
February	192 ,,
March	274 ,,
April	313 ,,
May	323 ,,
June	655 ,,
July	453 ,,
August	397 ,,
September	294 ,,
October	347 ,,
November	304 ,,
December	301 ,,

1937	$
January	159 million
February	59 ,,
March	101 ,,
April	102 ,,
May	44 ,,
June	101 ,,
July	89 ,,
August	70 ,,
September	28 ,,
October	50 ,,
November	78 ,,
December	105 ,,
1938	$
January	61 ,,
February	16 ,,
March	104 ,,
April	137 ,,
May	188 ,,
June	174 ,,

The reader will notice that the net contribution falls irregularly, and with various temporary recoveries, from a maximum of $655 million in June 1936 to a minimum of $16 million in February 1938, after which it begins to increase again. There is reason to believe that the figures ran progressively higher through the autumn of 1938.

There can be no doubt, then, as to what course was pursued in order to meet the boom which, it was supposed, was developing in the spring of 1937. Moreover, in addition to this decisive slashing of the net contribution, other measures designed to check the boom were taken. On April 2nd the President issued a statement that he considered that prices were too high. During the spring the reserve requirements of the Federal Reserve banks were twice raised, so that the banking system would have been able to lend less on a given reserve. The effect of both these moves must have been psychological, since the banks had

not lent up to the amount allowable to them in relation to the size of their reserves, while the President's statement was in itself but an expression of opinion. This is not to say, however, that the effect of these moves was not considerable, since they served as a formal announcement of the Government's intention to deal with a situation of incipient boom in the traditional way; and that traditional way is, whether the Washington authorities realised it or not, to stop the boom by producing a slump.

No one can allege that the administration's new policy was ineffective. The reduction of the net contribution got fairly under way, we notice, in January 1937. By September 1938 it was down to $28 million. And in September the economy nose-dived. The 1937 recession receded with a catastrophic swiftness not only as great as, but much greater than, the 1929 slump. In the six months between October 1937 and March 1938 some 4½ million workers lost their jobs. The Federal Reserve Board index of production dropped from 116 for the first half of 1937 to 75 by midsummer 1938 (the 1932 low was 64 and 1929 was 121). The national income, which had been about $81 billion in 1929, $40 billion in 1932, at the rate of $72 billion in the first half of 1937, was running at the rate of no more than $50 billion by the beginning of 1938. Even more striking figures could be given for particular industries. But perhaps these general figures give sufficient indication of the appalling suddenness of the decline.

Wholesale prices, which, as we saw, rose about 10 per cent. in the six months from October 1936, fell back again by about the same amount between April 1937 and February 1938. The 1937 recession cannot, of course, compare in severity with the 1929, or great, depression. But this is not because of any lesser precipitancy in the decline. It is because it was incomparably shorter. The great depression lasted, in America—from the downturn of October 1929 to the upturn of March 1933—three and a half years. In the 1937 depression the upturn came about July 1938—so that the whole downward movement lasted

no more than ten months. We shall canvass the cause of this relative brevity immediately.

Would Inflation Have Come?

We know with some assurance, then, that those spokesmen of capitalist finance who believed that if only the Government's net contribution were reduced to almost nothing, and the budget were balanced as quickly as was practicable, a vast increase of private investment would carry the economy to, and beyond, the 1929 level, were in error. It certainly appears as if a basic change in the willingness or ability of entrepreneurs to go out ahead of demand, and by so doing to create demand, had occurred. We cannot forbear to ask, however, what would have happened if either of the other two courses proposed by the progressive groups described above had been adopted? First, what would have happened if the advice of those who in early 1937 proposed to maintain, and even increase, the Government's net contribution, had been taken? Would prices, wages, and consequently the Government's need to spend in order to maintain a given level of purchasing power, have gone spiralling up indefinitely? If so, of course, the real tragedies of high inflation would have begun to appear. Both the employed workers, and the salaried middle class, with their savings mostly in fixed interest securities, and all creditors, would have suffered severely. Moreover, a severe programme of cuts, such as that initiated by the French Government in 1927, would have been necessary to stop the process. Inflation such as this, while it certainly could not, in America, have produced the catastrophies of the German post-war inflation (which were only possible in an already ruined country), would have been exceedingly undesirable.

It is difficult in the extreme, however, to believe that the maintenance of the Government's net contribution between, say, \$3½ billion and \$4½ billion a year during 1937 would have had any such effect as this. In order to have committed the economy to the inflationary spiral, it

would have been necessary, remember, for the productive system to have responded to the increased demand predominantly by raising prices rather than by increasing output. It is true that in the autumn of 1936 prices had begun to rise. There is a good deal of evidence to suggest, however, that, had demand been sustained through 1937, new productive capacity would have come into use, and new supplies of raw materials would have come forward. As we noted above, private investment had, by the end of 1937, become very substantial. Private corporations spent at the rate of \$6·3 billion a year on producers' durable goods in that year (as against \$9·0 billion in 1929 and \$2·3 billion in 1932). This was far more than was needed for mere replacement and renewal. New productive units were rapidly coming into being. The bottle-necks would have widened and production increased, so that demand could have been met without an increase in prices. It is alleged that shortages in certain types of skilled labour had also appeared. But with many millions of fully employable workers still idle, this deficiency also would, surely, have righted itself over, say, six months time? Finally, the production of raw materials was rapidly increasing all over the world. Supply would in this field have caught up with demand very rapidly indeed.

The Menace of Monopoly

Hence there can be little doubt that the American system *could* have met a consumer's demand sustained by the maintenance at a high level of the Government's net contribution, by increasing production instead of by raising prices. But the question remains whether it *would* have done so. As we saw above, a third group of Washington economists, unquestionably independent of finance capital, gravely doubted whether it would. They judged that certain important spheres of American production had become sufficiently monopolised to make it possible for producers to respond to increasing demand by raising prices instead of by increasing output, even when large

excess productive capacity was still available. It is not necessary, they point out, for an industry to have come into the hands of one giant trust, or monopoly in the exact sense of the term (as has aluminium in America), for this to be possible. An industry may be dominated by two, three, four, or perhaps seven or eight big firms, and yet it may be possible, and indeed probable, that these firms will, by means of understandings, tacit or overt, amongst themselves, pursue a common price policy. A whole terminology, of which duopoly, triopoly, oligopoly are the outstanding terms, has been invented to describe this situation, and a whole branch of economic science—the economics of imperfect competition—has been devised to analyse its consequences. This school believed that certain major American industries were triopolies (as automobiles with Ford, General Motors, and Chrysler) or oligopolies (as steel, with U.S. Steel, Bethlehem, Republican, and a few more). Moreover, they believed that some industries in which hundreds of separate firms existed (notably the building industry) had cartel-like agreements and understandings which tended to make them respond to increased demand by raising their prices instead of increasing output. They feared that if nothing more were done than to sustain demand by raising the net contribution, the spiral of increasing prices and costs might begin to spin long before productive capacity was reached, and that, for this reason, full employment would never be reached, unless measures were simultaneously taken by which the monopolies, duopolies, triopolies, and oligopolies were subjected to a measure of control.

I do not pretend to know whether or not this view was justified. There seems to be a good deal of evidence for it, however. In any case, the type of controls which this group proposed, and at a later stage succeeded in initiating, were, as we shall see below, of a much superior type to the earlier system of controls typified by N.R.A. and A.A.A. These new controls were of a wholly unobjectionable kind. Indeed, they were advantageous in themselves, and their adoption, together with an increase of redistributory

taxation as a means of maintaining the net contribution, would have been a highly desirable safeguard. The more realistic view is, then, that while the inflation cry was certainly part of the counter-attack of big finance, yet it would be an error to suppose that, more especially in the later stages of the recovery, other and more direct measures for the control of production, in addition to financial stimulation, were not necessary to the success of the expansionist programme.

CHAPTER XVII: THE 1938 RECOVERY

The Progressive Forces React

THE 1937 slump continued its steep descent until the summer of 1938. In the spring of that year, however, the Roosevelt administration became gravely alarmed. The prospects of the administration, and of all the progressive forces in America, were being jeopardised by the economic catastrophe which had developed. There now appeared all those fatal consequences for a progressive administration which allows the wheels of production to slacken and unemployment to grow—those consequences which we emphasised so strongly in Part I. It seemed that one more progressive government was to go down in utter discredit because its leaders had neither the resolution to fight the reactionaries, both within and without their own ranks, nor the knowledge of how to fight them in the particular, concrete circumstances of the moment.

But the progressive forces of America proved to have greater courage and greater skill than their European equivalents. The new slump not only alarmed the President and the other leaders of the administration; it caused them to act. The balance of influence within the counsels of the Government, which, as we have seen, had tilted far to the right, now shifted back to the left. Those advisers who had prophesied that it was now both safe and necessary to return to " sound finance " were discredited. The progressive schools of economic thought were given another opportunity.

On April 14th, 1938, President Roosevelt sent a message to Congress, in the preamble of which he used these memorable words:

" The National Administration has promised never to

stand idly by and watch its people, its business system, and its national life disintegrate."

There was not to be another three and a half years of the agonising downward phase of the trade cycle, such as President Hoover had passively observed. In order to make good this promise, the President prepared to resume spending and lending on a scale which would put up the net contribution to a substantial figure again. He proposed:

(1) That \$1·4 billion should be given to the unemployed by way of the Works Progress Administration during the seven months beginning July 1st, 1938.

(2) That \$175 million should be given to the farmers by way of the Farm Security Administration. (This body provided what were in effect direct relief payments to the farmers.)

(3) That \$75 million and \$50 million be given to the National Youth Administration and the Civilian Conservation Corps respectively.

(4) That the reserve requirements of the banks, which, as we noted, had been increased, should be lowered again, so that if (and this was a very big if) enough borrowers came along the banks would have no difficulty in lending to them.

(5) That \$500 million be given to the United States Housing Administration to help housing projects.

(6) That a total of \$1·3 billion be given to the Public Works Administration, part of which should be spent directly on large-scale public works, and part of which should be lent to State and local authorities for their public works projects. The condition was made that the public works must be started within six months and completed within eighteen months of July 1st, 1938.

(7) That \$100 million be spent on roads, \$37 million on flood control, and \$25 million on Federal buildings.

In addition, a little before this message to Congress the funds at the disposal of the Reconstruction Finance Cor-

poration had been increased, and the terms of its authorisation widened.

The net effect of these recommendations, as they were enacted by Congress on June 21st, 1938, was that between \$2 billion and \$2·5 billion dollars were made available for spending in the fiscal year June 30th, 1938 to June 30th, 1939, and that between \$1 billion and \$1·5 billion were made available for lending during the same period. (I have given the figures as they were finally embodied in the Act rather than as they were first proposed in the President's message.)

The initial effect of this reversion to the compensatory fiscal policy was astonishing in both the magnitude and the rapidity of its success. The mere announcement of the policy in April caused the stock market to turn upwards after six months of precipitous decline; by the time that the programme was enacted (July 21st) the indices of trade and production had also halted their downward plunge. And from that month onwards, as the money began to be spent, recovery went almost, though not quite, as fast as recession had gone. The advocates of the new spend-lend programme had not themselves expected that the Federal Reserve Board Index of production would rise beyond 90 or 95 within six months. But it had crossed the 100 mark before the end of the year. Employment rose also, but much less satisfactorily—by only 1·2 millions. The response to this new pull of demand, created by the new money which the Government was putting into circulation, was to a gratifying extent a response of increasing output rather than of rising prices. At the end of 1938 wholesale prices were 9 per cent. below the end of 1936, and 5 per cent. below the end of 1937. (On the other hand, as we shall note below, grave discrepancies between different groups of prices developed.)

It is no doubt possible to maintain, and impossible to disprove, that this recovery also would have happened anyhow. Indeed, it can be maintained that it would have been even more rapid if the Government had not undertaken its new lend-spend programme. It may be argued

that the excessive inventories had been worked off by midsummer of 1938; that the 1937 slump was not a major cyclical movement, but a mere short, sharp check in a continuing upward trend. There does not seem to be any real evidence to support this view, however. It is certainly at least as probable that if Mr. Roosevelt had reacted to the 1937 slump with the passivity with which Mr. Hoover faced that of 1929, the 1937 slump would have developed into a major downward movement, extending over years. It is true that the inventories had been worked off, but in the process of working them off 4 million workers had been thrown out of work, thus destroying their purchasing power. This disemployment may well have more than compensated for the increase in purchasing power which the drop in prices was, of course, producing for those workers who kept their jobs and did not have their wages cut. In any case, the fact remains that the 1937 depression continued in full and ever-growing force until the moment when the new lending-spending programme was announced, and from that moment on recovery set in. There is a very strong *prima facie* case for supposing that it was this vigorous example of a progressive government using the expansionist weapon which caused the recovery.

Was Recovery in Time?

So far as America is concerned, however, we must immediately qualify any undue optimism engendered by the extraordinary initial success of the 1938 lend-spend programme. For the launching of that programme had been delayed so long; the country had been, by the summer of 1938, allowed to slip so far down into the agony of another major depression, that enormous political damage had been done to the Roosevelt administration, and to the progressive forces in general, in America. The 1936 presidential election had taken place, we noted, at the very peak of the recovery. The American people believed, and had good reason to believe, that the progressive policies of the Roosevelt administration had pro-

tected their interests. The American workers and farmers felt that the President had given them not only much-needed measures of reform, such as the Labour Relations Act, the Social Security Act, the provision of relief, etc., etc., but had also protected their most vital interest of all, by restoring their jobs to some 7 million out of the 14 million who had lost them by 1932, and in giving Works Progress Administration jobs to 2¼ million more.

At the same time the farmers had seen relatively tolerable prices for their produce, and relatively tolerable conditions for their indebtedness, restored. Both of these two great sections of the American people felt confidence in the President and his colleagues. They believed that they would never again be allowed to go through the hell of a great depression such as they had suffered between 1929 and 1932. And in 1936 they endorsed President Roosevelt and the progressive forces which he led by an utterly unprecedented vote of confidence. The shock was all the more terrible when, less than a year after that endorsement, the American people began, to their horror, to experience the all-too-familiar symptoms of the onset of another major depression; when the workers began to lose their jobs again; when the farmers began to find that their produce brought them prices which hardly compensated them for their expenses of production. Moreover, for more than half a year Mr. Roosevelt and his then advisers took no steps to combat the deadly paralysis of depression which the American people felt creeping upon them once again. Their confidence in the ability of the progressive forces to protect them was terribly shaken. I have myself no doubt but that if Mr. Roosevelt had not launched his new recovery programme in April 1938, if he had allowed the depression to gather and deepen unchecked and uncombated until the congressional elections of November 1938, the progressive forces would have suffered, and, what is more, would have deserved, the same utter and overwhelming defeat as the British Labour Party, for example, suffered in 1931.

Here we have one more example of the lesson which is

taught by all contemporary social history, but which is still so incredibly neglected by all sections of the progressive forces. It is the lesson that if the progressive forces incur, as it is almost certain that, at various stages in their struggle, they will have to do, the heavy responsibility of taking office at a time when they cannot abolish capitalism outright, they must *in one way or another*, and almost at all costs, make the wheels of production turn, and so provide employment for the people. If they do not, it will be child's play for reaction to destroy them. For workers *must* have jobs; farmers *must* be able to sell their crops. If a progressive government gives them the most beautiful and beneficial reforms imaginable, and does not protect their jobs and their livelihood, they will repudiate it without an instant's hesitation. They will support the most viciously reactionary forces: they will support the most anti-working class, big business administration, which will destroy the right of organisation, slash the social services to nothing, and crush the workers' own political organisations, if they are driven to believe that such forces alone can give them employment. Thus to create in the minds of the population the belief that the election of a progressive government endangers their jobs is the one thing utterly and absolutely fatal to the whole progressive cause. It does not in the least matter that the reactionaries will in any case allege that this is so. They will not be believed, *unless their accusation is confirmed by experience*; unless the election of a progressive government is actually followed by mass unemployment and the other agonies of a great depression. But if this is allowed to happen, then nothing else which progressives can do or say can possibly save them from total repudiation by any contemporary electorate.

In the case of Mr. Roosevelt's second administration the oncoming depression was fought; the American people were given an earnest that they were not to be left to the mercy of the slump; that they had a real protector and friend in Washington who was determined to prevent their destruction. But all this was done so late; the effects of

the new programme were still so new by November 1938 that the frightful shock of the gathering depression of the previous nine months could not be wholly eradicated. The results of the November 1938 election show that on the whole the new recovery programme came in time to reassure the industrial workers that the administration would protect them, but not in time to reassure the farmers. On the whole, the farm vote deserted, and the city vote remained true to, the New Deal. (The reader will have noticed the extraordinary, and in my view utterly unjustified, difference between what the farmers and the workers got in the 1938 lend-spend programme. The workers got $1·4 billion of direct payments through the W.P.A., and a good deal more indirectly through the other spending agencies. The farmers got only $170 million! No wonder they kicked!)

To an observer who, like myself, was in America during the whole period of the 1938 elections, it was curious to notice how little either the supporters or the opponents of the New Deal appeared to realise that everything turned upon the effect of the nine months of slump from September 1937 to June 1938, and the degree of popular realisation that there had been four months of recovery. Yet I have not the slightest doubt that if the elections had taken place, say, four months earlier, before anything had been done to fight the slump, the New Deal would have been routed, instead of severely checked. (The Republicans, for instance, would have gained a clear majority in the House of Representatives, and have elected their governors to every northern State of the Union.) And yet the results of the election were attributed, by both sides, to every conceivable incidental reason, except the simple one that the American people's confidence in the New Deal's ability to give them jobs had been shattered by the 1937 slump and only partially restored by the 1938 recovery.

The Struggle With Monopoly

As suggested above, the farmers had special reasons for their dissatisfaction with the New Deal. The 9 per cent.

fall in wholesale prices which occurred during the 1937 slump concealed a grave discrepancy between the fall in the prices which the farmers received and those which the farmers paid. It was calculated in Washington that between April 1937 and February 1938, 23 per cent. of all prices, reckoned by an index based on the proportionate values of the items listed, actually rose or remained steady, that 28 per cent. fell less than half the average; that 20 per cent. fell double the average. (The remainder fell by approximately the average amount.)

Now, the 23 per cent. which rose or remained steady, and the 28 per cent. which fell less than half the average, were predominantly the prices of industrial goods produced by monopolised, duopolised, or oligopolised industries. For these producers could meet falling demand by a concerted reduction in output instead of by a reduction in their prices. The 20 per cent. which fell double the average were, on the other hand, above all farm prices. For farmers can only reduce production with the greatest difficulty; they must, by and large, take any price for their crop which they can get. In these figures may be found ample justification for the wholesale desertion of the New Deal by the farm vote. But, of course, the farmers, who do not study price ratios, did not say that they were going to vote against Roosevelt because of the discrepancy which had reopened between the prices which they got and the prices which they paid. They merely felt sore, and cursed the C.I.O. or the Communists, whom Representative Dies told them were behind Governor Murphy of Michigan, or the W.P.A. or anyone whom they happened to notice. But in truth, and whatever they said, the farmers voted Republican because the New Deal had ceased to protect them. And it was a very good reason too. Any progressive who attempts to explain their action away is simply deceiving himself.

Many of the Washington economists and administrators were acutely aware of the price discrepancies which were arising throughout the economy. This was the basis for the views of that third school of thought, which we noted

in the preceding chapter, and which believed that the speculative symptoms of early 1937 called not merely for a continuance of spending, but for some attempt at the direct regulation of production. In the summer of 1938, when the ear of authority again inclined in their direction, these experts succeeded in planting a seed which they hoped would grow into an organism capable of exercising a measure of direct price control. This was the so-called Monopoly Inquiry. This body has taken the traditional American form of a congressional inquiry. But it was evidently designed by its sponsors to develop into a permanent organisation for the public supervision of industry as a whole. Its immediate object was to put pressure upon those spheres of production which have been monopolised, or, more usually, oligopolised, in order to induce them to pursue a price policy which would lead to a small margin of profit upon a big output, rather than a large margin of profit upon a small output. In other words, the sponsors of the inquiry hoped, by a judicious mixture of threats and cajolery, to induce the monopolists and semi-monopolists to respond to increased demand by raising their output rather than by raising their prices. It may be that the sponsors of the inquiry hoped that Congress or the courts, acting under the Sherman Anti-Trust Laws, would be willing to enforce such conduct by actually splitting a few of the most flagrant monopolies, and thus restoring competitive conditions in certain cases. On the whole, however, the inquiry hoped to obtain results by educative and persuasive processes rather than by legal sanctions.

No one who concurs with the main threads of argument presented in this book will doubt that this effort was, as far as it went, a well-conceived one. This is a far healthier and sounder approach to the problem of the direct control of production, by means of the control of prices, than that made by the N.R.A. It is to misconceive the nature of the real problems involved to suppose that there is anything reactionary about the attempt to maintain or restore competitive conditions, or to induce monopolistic

organisations voluntarily to pursue a price policy such as they would have had to adopt if competitive conditions still existed. On the contrary, it emerges that in a capitalist society stagnation can only be effectively combatted if those who control the economy can be forced to produce on an ever lower margin of rent, interest, and profit (surplus value); that the whole spend-lend policy can be regarded merely as a roundabout way of achieving this end by acting upon the rate of interest. Hence the Monopoly Inquiry was certainly a logical and integral part of the whole economic policy of the administration. To what extent the Monopoly Inquiry can hope to succeed in the political conditions of 1939 and 1940 is another matter. But this applies to the New Deal as a whole.

Inconclusive Conclusion

The history of the American New Deal is still being made. But already it can be said that the year 1939 will provide us with no conclusive answer to the question of whether or not the progressive forces can re-establish themselves after their severe check in 1938.

The second half of the year brought with it the overwhelming issue of the second European war. The war will blur and confuse not only the lines of the American political struggle, but also the economic situation which conditions that struggle. The first half of 1939 had seen no continuation of the rapid recovery which had marked the autumn of 1938. On the other hand, there was no new collapse in the levels of production and employment. There was rather an economic, and consequently a political, stalemate, with some further loss of ground to the progressive forces. The question of whether or not the slashing of the net contribution and the, in my view, directly consequential slump of 1937, had or had not so shaken the popular support of the New Deal that it was no longer able to overcome the now furious opposition of an almost united capitalist class, remained undecided.

It will be interesting indeed to observe the sequel. It would be, no doubt, to over-simplify matters to assume that if the net contribution to popular purchasing power can be maintained at a high level for the remaining months before the next presidential election, business will certainly be good, and that if the contribution is forced down, a new recession is bound to appear. On the one hand, the level of American exports, and, on the other, the volume of private investment, can affect the situation as decisively as can the level of government spending. The experience of the first half of 1939 gave little encouragement to the view that any help can come from these directions, however. The extreme precariousness of the immediately pre-war international situation appears, on the contrary, to have exercised a strongly depressing influence upon the American economy. The volume of private investment-spending appears to have continually declined. There was renewed danger of an acute slump, in spite of the substantial net contribution to purchasing power which the Government was making. There seems some evidence that America was caught in a very unfavourable position from a purely economic point of view. The very extremity of the danger of war had driven the British Government progressively to put the British economic system on to a war basis. In so doing, it appears to have rather more than replaced by its spending on armaments the drop in private investment which the tension had caused. But for America, where the danger of actual military attack was so much less, there was no justification for putting the economy on to a war basis, while at the same time the crisis had caused the same falling off in private enterprise. Hence the special difficulty of the American position in the first half of 1939.

The Struggle Goes On

With the outbreak of the war the economic issue naturally became obscure. The fate of the Roosevelt administration was felt to turn no longer on the degree of

activity or stagnation which could be induced in the economy during the remainder of the presidential term, but on the President's foreign policy, on the repeal of the Neutrality Act, and on other such issues.

It may be that the strictly economic and domestic issue is still more important than would be supposed from the degree to which American opinion was concentrated on the international situation, at any rate during the early months of the war. Of this it is impossible for an observer no longer in America to judge with any certainty. But what is certain is that, whether in war or in peace, the gigantic struggle between the progressive and the reactionary forces in America goes on. It is certain that the leaders of American big business and big finance are fighting, and will fight, to use the war to attempt to get back to pre-New Deal, wholly unregulated, or more probably to-day wholly self-regulated, capitalism, and wholly unmitigated exploitation. They will attempt to wipe out the New Deal (they have already during 1939 dealt it serious blows—such as the abolition of the W.P.A.). They will attempt to shunt the American economy on to that path of unlimited profit-making at home which can only mean, in contemporary conditions, unlimited imperialist aggression abroad.

It is equally certain that the progressive forces in America must and will unite, not so much perhaps to save the existing New Deal in its present form, as to supersede it with another progressive programme, cast in the same general mould, but built upon incomparably more secure political and financial foundations. It is for the purpose of developing this second New Deal that I submit to them the type of programme outlined in Part I. Immense issues both for the ultimate future of the world and for the immediate future of the American people hang upon this next phase of the struggle. In Part I I have described that transformation of the banking system which can alone provide a firm foundation for an expansionist programme. It remains to describe, in this context, what steps would be necessary to finance a second New Deal in America.

We must deal with such questions as whether a net contribution to purchasing power upon the part of the Government has become a permanent necessity, if the American economy is to be prevented from falling into slump; of whether such a contribution is to continue to be made, as heretofore, by means of a government deficit, covered by borrowing, mainly from the banks; of whether the resultant cumulative increase in the national debt will or will not have deleterious consequences; of whether there are not alternative policies and expedients which might be and should be employed.

Chapter XVIII: LESSONS FOR THE FUTURE

Where the Money Comes From

Whence have come, the reader will be asking, all these billions of dollars which, you tell us, the American Government has year by year spent, in excess of its receipts from taxation? They have come from borrowing. Let us now envisage as precisely as possible what happens when the Federal Government borrows $3 billion, or any comparable sum, during any given year, as it has been doing during the past five years. The Treasury has engraved a certain document, called a bond, or promise, to pay this sum of $3 billion in, say, 25 years' time, plus an interest charge of, say, 2½ per cent., or $75 million a year, to anyone who will, in return, give the Government $3 billion now. In practice, of course, no one person or institution can furnish the Government with $3 billion. Hence a number of bonds, each promising to pay, say, $10,000 in 25 years plus $250 a year, to anyone who will give the Government $10,000 now, are printed. These bonds are then offered for sale.

Now, if you or I, or any private person, buys one of these bonds, we have to pay cash for it. We write the Government a cheque for the $10,000, pocket the Government's bond, and wait for our first interest payment. The Government then deposits our cheque with a bank. It will now have a deposit account with the bank, and on this account the Government can draw up to $10,000 as and when it needs to pay out the money. However, the greater part of the bonds which the Federal Government is to-day steadily issuing and selling are bought, not by private persons, or even by corporations, but by the banks themselves. If these are banks at which the Federal Government keeps an account, this simplifies matters. There is no

need for the bank to write a cheque to the Government. In return for the bond it merely opens an account upon which the Government can draw up to the amount of the bond. Of the (about) $3 billion worth of government bonds sold in each of the past five years, nearly $2 billion appears each year to have come from the banks. Therefore the first, and simplest, answer to the question of where the money which the Government has spent in excess of its tax receipts comes from, is that the bulk of it comes from the banks.

The question at once arises as to where the banks have got the money from. Where did the banks get the $2 billion or so with which they have each year bought the Government's bonds? Behind all the complexities of banking technique there emerges the crude fact that the banks have simply created this money. When banks make loans of $2 billion a year either, as in this case, to the Government, or, as is more usual, to other borrowers, the money does not come from anywhere. It is created by the banks' own act of lending. The printing of paper notes, whether by a central bank or by the Government, is merely concerned with supplying the small change for the money which the banks create when they make loans.

We discussed in Part I, Chapters VIII and IX what were the theoretical implications of the now habitual supply by the banking system of the main type of money used in our economies.[1] Here we are merely concerned to notice that this particular way of financing an expansionist programme necessitates a steady growth in the "national debt", owed by the Government to its citizens. It is

[1] We dealt (in Chapter VIII) with the mistaken view that, on the contrary, the money comes from thrifty savers, and that the banks merely act as transmitting mechanisms. The crux of the matter, we saw, was that it is bank loans which create bank deposits, and not vice versa. True, the saver, corporate or individual, thrifty or unthrifty, plays a part. But the point is that the saver would have no money to save if it had not been first provided by the banks. On the other hand; the reader will recall, the banks could not have provided the money unless they had found borrowers, whether corporate or individual, private or public. So that in the last analysis the rôle of money and banking can be greatly exaggerated. The decisive thing is that somebody should initiate productive activity.

important to elucidate, especially for the purpose of the development by American progressives of a new expansionist programme, whether this fact matters, and, if so, whether there are alternative methods of financing such a programme which avoid this growth of the national debt.

National Debt or People's Credit

Now, there is no doubt that the growth in the total of the debt owed by the Federal Government to American individuals, corporations and above all banks, as a consequence of the policy which has been described above, is causing profound concern to many American citizens to-day.

Such concern cannot be dismissed as unimportant, however erroneous are the assumptions upon which it is based. For the psychological effects are real and cannot be neglected. If the American people, or an important section of them, feel that something ominous and foreboding is happening when, say, $3 billion is each year added to the sum on which the Government pays interest to various American institutions and individuals, then this is a real factor in the situation which, though it can be modified by explanation and education, must be reckoned with. Moreover, all those who are opposed, for their own reasons, to the whole New Deal programme will inevitably play upon this concern and these fears. They will unceasingly suggest that the Federal debt is some frightful millstone which is being hung round the necks of the American people; that some catastrophic day of reckoning will arrive when the debt will have to be paid off—to whom I do not know. They will paint a picture of the children of the present generation of American citizens working day and night in order to repay some gang of monstrous usurers to whom their reckless parents have mortgaged them. That this picture makes contact with reality at no point does not prevent it from exercising a real effect. Let us first examine the size, rate of growth, and real effects of the present Federal debt; let us consider what its effects

will be if the debt continues to grow at the present rate for an indefinite period. Then we may return, having placed our feet onto reality, to a consideration of the fantasies and fears which beset the American mind on this subject.

We have described what the process of government borrowing consists in. It is an exchange, conducted between the Federal Government and an American bank, corporation, or individual, of a large sum of money now, in return for the annual payment of a small sum of money until a specified date, upon which the original large sum is returned. At first hearing this sounds as if some date on which the debt would have to be repaid will in fact arrive. But this is not the case. For the whole of the debt is not borrowed at the same time. For instance, different parts of the present debt of \$41·1 billion (as of July 1st, 1939) were borrowed on various years since, say, 1916. Blocks of \$2 billion or \$5 billion or so of debt are continually falling due for repayment, and are being duly repaid. All that happens is that the Treasury re-borrows, either from those same lenders, who do not really want their money back, but prefer to go on being paid an annual sum of interest, or from new lenders, money with which to repay debt which has become due. Thus a perpetual process of borrowing and paying back is going on between the Government and individuals. It is only when *more* is borrowed each year than is paid back that there is a net growth of the debt. No dreadful day of reckoning awaits the American people upon which they will have to stand and deliver \$41·1 billion or go bankrupt.

Moreover, the above phrase reveals a far deeper fallacy which underlies this nightmare of having to pay back the debt. To whom would the American people pay back the \$41·1 billion? The only conceivable answer is, to themselves. The American people, as represented by their Government, would pay \$41·1 billion to the American people as represented by those individuals, corporations, banks, etc., who at present hold the national debt. Such a transaction, were it a possibility (which it is probably not), would no doubt re-distribute wealth between different

individual Americans. It would redistribute it according to how the \$41·1 billion which should be given to holders of the national debt was raised. But it would neither increase nor decrease the total wealth of the American people, as a whole, by a single dollar. In other words, a nation cannot be in debt to itself. There can be no " burden of the National Debt ", for a nation cannot carry itself. Every debt is at the same time a credit.

It is impossible for John Smith in New York to be in debt for \$10,000 without there being a James Jones somewhere else who has a credit of \$10,000. This is fairly well recognised in the case of private debt. But exactly the same thing is true of government debt. \$41·1 billion of government debt are necessarily and inevitably at the same time \$41·1 billion of private credit.

All this suggests that it would be every bit as logical to call the \$41·1 billion of the Federal Debt the American people's credit with their Government, as to call it the Government's debt to the people. And no doubt it would be called a people's credit instead of a national debt, if it were in the callers' interests to do so. Then the Americans would open their newspapers each morning to be told that the People's Credit with the Government had now risen to the glorious total of \$41·1 billion! How rich everybody would feel! Next year, the President had promised them, the newspapers would report, that they would have a total credit of no less than \$44 billion with the Government! What could they not do with all this money? What vast and various enterprises could they not found upon it? Best of all, on every dollar of this vast sum the Government was paying them interest. A steady stream of income, which amounted in the year ending June 30th, 1938, to \$926 million, was flowing to American citizens from the Government by way of these interest payments! If the American Press described the situation in these terms—which, I repeat, are precisely as accurate as is the portrait of catastrophe which that Press in fact daily draws—how happy everybody would be!

The reader will note, however, that I have claimed that

such a description of the supposed benefits of a People's Credit of \$41·1 billion would be "precisely as accurate", no more and no less, than is the existing description of the supposed disasters of a Government debt of \$41·1 billion. It would be no more accurate. The fact is that it would be just as inaccurate and one-sided, but in the opposite sense, as is the existing jeremiad. For of course calling the \$41·1 billion a People's Credit would no more make that sum an addition to the national wealth than calling it a national debt makes it a subtraction from the national wealth. In the same way it is just as untrue to suggest that the \$926 million of interest being paid to Americans by their Government is a net addition to the national income, as it is to suggest that the \$926 million which the Government raises in taxation in order to pay that interest is a net subtraction from the national income. To suggest the former is to forget that the money paid out on interest is first raised by taxation; to suggest the latter is to forget that when the money had been raised by taxation it is paid out again in interest.

Does the Size of the Debt Matter?

The truth is that a government or national debt, both on capital account and on income account, is a circular process, by which billions of dollars, or millions of pounds, are paid into the Treasury by this set of citizens and are paid out again to that set of citizens. Do we reach the clear-cut conclusion, then, that the size of the national debt does not matter at all? Do we reach the conclusion that if, for instance, the American Government's debt to its citizens now stood at \$400 billion instead of \$41·1 billion, it would constitute no more of a burden on the American people? In principle, and administrative difficulties apart, this is the case. In principle, since the process of taking money from people in taxation and paying it back to them in interest is circular, the number of billions of pounds, marks, or dollars going round the circle makes no difference. Add a nought to both sides of the balance

sheet and you are precisely where you were when you started.

But this view is much too abstract. The catch in it is that to some extent one set of citizens may be paying the money into the Treasury in taxation, and another set of citizens may be having the money paid out to them by way of interest. And these two sets of citizens are not necessarily made up of the same people. A system of taxation may be so arranged that all the money which is paid out to individuals, corporations, and banks by way of interest on their holdings of government debt is raised from the same class of individuals, corporations, and banks, by way of taxation. But, in practice, systems of taxation in all the three communities under our discussion—viz. Britain, Germany, and America—are *not* so arranged. The money needed to pay the interest on the national debt of these three countries is almost certainly raised from a larger number of people than the number to whom it is paid out. Thus, in practice, and unless strongly progressive governments are in office, a large national debt is only too apt to become an engine for the further mal-distribution of wealth from the poor to the rich.

Thus it is to over-simplify matters to say that the size of the national debt, and the rate of interest paid on it, is a matter of indifference. It *would* be a matter of indifference if exactly the same people paid the taxes and received the interest. Hitherto, however, this has never been the case. More people have paid the taxes than have received the interest.

This need not necessarily be so. If the type of tax schedules which we discussed in Chapter V above were introduced, for example, the whole of the money needed to pay the interest on a debt of any magnitude could be raised from the same class of persons who received the interest payment. But until and unless that is done the amount of the " burden " which the interest payments on a large national debt throws onto the budget is undoubtedly a matter of concern.

The Way to Avoid a National Debt

There are, then, two reasons why a steady growth of the national debt should be avoided in the financing of an expansionist programme. First, that growth provides an opportunity for the reactionary forces to confuse and alarm the people. Second, there is a real danger of such a debt acting as an engine for the redistribution of money from the poor, who pay most of the taxation, to the rich, who get almost all the interest. *But the only way of avoiding a steady growth in the national debt as a result of an expansionist programme is to transform the banking system into a national service, supplying money-capital on a non-profit-making basis.* Thus we come back by another road to our former conclusion, that such a transformation is the only firm foundation either for a progressive programme for Britain, or for a second New Deal for America. The prime necessity for such a step is that it alone will erect a substantial barrier against the inevitable counter-attack from finance capital which any progressive, expansionist programme will have to meet. But at the same time a national, non-profit-making banking system will alone make it possible for a progressive government to supply money-capital in the appropriate quantities, and at the appropriate price, to all producers whether public or private, and to supply purchasing power to selected consumers, without steadily increasing the national debt.

For even if the Government decides to have the necessary new money created for it by the banks, and to borrow it from the banks—as it well may—such a debt, existing between a government and a public, non-profit-making banking system would, evidently, be no more than a book-keeping transaction. The interest on such a "debt" would presumably be fixed by the Government at just the right figure, and no more, to remunerate the national banking system for its technical services—which would be, in effect, to keep the national accounts.

When and How to Balance the Budget

However, the effects of the provision of new money to either producers or consumers will be just the same whether

in the price level, due to the attempted hoarding of the rich, than of a rapid and cumulative rise in the price level, due to the combined spending and investment of the Government and of the rich outrunning the practicable output of goods and services. Moreover, the only method by which a government, which, having attained full employment, was faced with the first symptoms of a new decline, could deal with the situation, would be to return to some form of expansionist policy. And most forms of expansionism would involve the creation of new money.[1] For the creation of such new money is the only way by which the Government can compensate for the money which the attempted hoardings, the un-enterprise, the productive paralysis of the entrepreneurs is taking out of circulation.

The vital lesson to be derived from the rich experience gained by the progressive forces during the two Roosevelt administrations is, then, the familiar political precept that boldness always pays. Apart from the major initial failure to transform the banking system into a public service, the New Deal did the right things, but not enough. There was a tendency, natural perhaps but yet disastrous, to suggest that spending and lending should be regarded as nicely calculated balancing factors in the economy. The very name " Compensatory Fiscal policy ", often given to the policy in Washington, suggests that government spending and lending should be just upon a sufficient scale to compensate for any inadequacy in private spending and lending; that it is a matter of " nicely calculated less or more ", that another $100 million this year will be just exactly enough—that $50 million would be too little, that $150 million would be dangerously too much. Experience has demonstrated, however, that this is quite a mistaken conception. Expansionism is a method of struggle which can bring success to the progressive forces only if it is very boldly applied. It is a rough-and-ready, if you will crude, and, as we have seen, in its very nature provisional and

[1] See Note, p. 345, for a suggested alternative not involving the creation of new money.

transitional, method of carrying on the productive system. It will only succeed if and when the level of government spending and investment is so large that it will dominate the trends of the other factors, such as private investment and spending, in the economy.

PART III

EXPANSIONISM AND THE NAZI ECONOMY

Chapter XIX: THE FASCIST SYSTEM

Purpose of This Part

This part is in the nature of an appendix. Its purpose is to elucidate the relationship between the type of programme which has been put forward in Part I and the economic policy which was pursued by the Nazi Government from 1933 to 1939. It is indispensable to do this, because no reader can have failed to notice that there are points of apparent resemblance between the two policies. And many readers will, rightly, be profoundly disturbed by the fact that any resemblance can be found between a programme proposed for a progressive government and what the Nazi Government has done.

It will be no part of our purpose to belittle these resemblances. On the contrary, we shall lay heavy stress upon them. Undoubtedly some parts of the economic technique described above have been used, in a greatly modified form, to suit the purposes of reaction, by the German Government. We must study this Nazi use of a system of central controls over production, not because Nazi methods could ever have anything to teach us (the purposes at which the Nazi Government aims are the exact opposite of ours); but precisely in order to clear up a fatal error which might otherwise stand in the way of the use by the progressive forces of the one form of attack upon the economic problem which can bring them success. That error would be to suppose that because the Nazi Government had used a certain economic technique, the progressive forces must not use even remotely similar devices for their own totally different purposes. We shall find, as a matter of fact, that the economic methods used by the Nazi Government have been, in many respects, very

different from those which have been developed in Part I. The only real resemblance lies in the fact that the Nazis saw that a government which could, and would, control the mechanism by which money-capital is supplied to the productive system, and the balance of foreign payments, is able to steer the economy in the direction which the Government desires. Since the Nazis are the representatives of German monopoly capital, the purposes to which they have, in fact, directed the German economy are the extraction of the maximum amount of surplus value from the German people, plus the preparation for the conquest, and then the actual conquest, of new fields of exploitation abroad. In order to achieve these purposes they have put into force various stringent forms of control, some of which would be not only unnecessary, but which would destroy the very purpose of a progressive programme on the lines developed above.

The Nazi Tripod

The Nazi economy rests upon a tripod of controls. There is, first, the control of prices, including above all the price of labour. (This amounts to the control of costs.) There is, second, a control of the export of money, and with that a control of the rate of foreign exchange and the volume of imports (and, in so far as possible, of exports). This second leg of the tripod amounts to the control of the balance of payments between Germany and other countries. There is, third, a control of the volume of investment. This last and crucial control is distinguishable fromt he other two in that it is positive instead of negative. The first two controls are designed *to prevent something from happening* (for instance, a rise in wages or the export of money). The third control is designed to insure that something *shall happen*—*i.e.*, that there should be a sufficient volume of investment to employ all the factors of production. The economy does not so much rest upon this third leg of the tripod as march upon it; it marches upon it to war.

Price and Wage controls

Let us consider these three distinct systems of control in turn. The system of price controls was by no means wholly originated by the Nazi Government. A much greater degree of price control always existed in Germany than in other capitalist economies. The Nazi régime has, however, enlarged this system of controls so greatly as to change its whole character. And of these price controls the most complete of all is the control of the price of labour—*i.e.*, the control of wages, to prevent them from rising. As early as May 19th, 1938, Labour trustees were created into whose hands the fixing of wage rates was placed. At first the function of these trustees was to prevent any form of workers' pressure from raising wages. There seems no doubt, however, that during 1938, after full employment had been reached, the powers of the Labour trustees were even used to prevent employers from increasing wages! For a tendency then developed on the part of the employers to raise wages in order to attract workers to their own enterprises. And a definite decree was passed on June 23rd, 1938, giving power to the appropriate officials to fix wages. Most people are familiar with the Nazi wage policy. Here we are merely intent to show what is frequently overlooked—namely, that this whole process of destroying the workers' bargaining power, even to the point of semi-enslavement, was a necessity to the Nazi Government, if that Government was *both* to achieve full employment and, not only to prevent any rise in the workers' share in the product, but immensely to increase the share going to capital (to raise immensely, that is to say, the rate of profit, assuming that the rate of interest and rent have stayed about the same). For in the absence of such tyrannous controls full employment must necessarily have increased the workers' share.

produce a degree of revival which will even restore the level of production reached in the previous boom. The revival of the nineteen-thirties was probably not wholly, in the case of any of the major capitalist economies, the result of automatic forces. It was what we may call a produced revival, to an appreciable extent, at any rate. There is, however, a simpler reason why the above view of the independence of the German attainment of full employment on Nazi policy cannot be accepted. Nowhere but in Germany[1] did the revival of the nineteen-thirties reach within even a close approximation to full employment. When every possible allowance has been made for luck and for automatic forces, it is foolish to pretend that there is nothing to explain in the fact of full employment in Germany.

What, then, is the element in the Nazi economic policy which has enabled full employment to be reached? At the first level of description there is, of course, not the slightest doubt about what that dynamic factor has been. The 7 million Germans who were unemployed in 1932 have been put back to work by means of a continuous stream of government investment in, or spending on—whichever you like to call it—armaments, and public works of the type of road-building, the construction of public buildings, etc. True this increase in expenditure, huge as it has been (over fourfold, as we shall see), would not have been large enough in itself to bring all the German factors of production into use. But, just as we should expect from our discussion in Part I, this government spending, or investment, has generated a large volume of private investment and expenditure. Thomas Balogh, in his article on "The National Economy of Germany" in the *Economic Journal* for September 1938, calculates that total gross investment (public and private taken together) in Germany rose between 1932 and 1937 from 4·2 billion marks to 16·0 billion marks per annum. Public investment, he writes (mainly on armaments),

[1] Except in Sweden, where an expressionist technique was used by the progressive forces which were in control.

rose from 1·7 billion marks to 9 billion marks. Apparently, therefore, private investment of all sorts must have grown by something like 4·5 billion marks p.a. during those years.

In any case, we know that this increase of investment did suffice to create a sufficient volume of demand, for consumers' goods and producers goods' together (including armaments), to put all the German workers and other factors of production to work. Indeed, as we shall see, it sufficed to do this so amply that, allowing for the fact that an appreciable part of the labour force was withdrawn for military service, the problem soon became that of finding enough factors of production to produce a sufficient supply of both kinds of goods to meet the demand without a sharp rise in prices. Thus the primary function of the system of price controls has become that of holding down the demand for consumers' goods so that more and more factors should be available for producing producers' goods (counting armaments as producers' goods for the moment). But all this only shows the completeness with which the problem of the re-employment of the factors has been solved. A fourfold increase in the expenditure of the German Government did amply suffice to generate full activity in the German economy. Nor is there any difficulty in understanding that it would.

German Finance

What most observers have found incomprehensible is that the German Government, which was said to be, and which appeared to be, in a semi-bankrupt position in 1932, could, within six years, increase its expenditure fourfold. How on earth, it is asked, can this gigantic expenditure be paid for? Evidently we must turn to the financial aspect of the German economy.

The financial policy of the German Government is not, in fact, by any means as complex as is often supposed. The basic facts and figures appear to be as follows.[1]

[1] I must warn the reader that different authorities give somewhat different figures in certain cases. After comparing these estimates, it

Expenditure (in billion marks) [1]

	Total.	On Armaments (including Strategic Roads, Army Pay, etc.)
1932–33	6·7	1·0
1933–34	9·7	3·0
1934–35	12·2	5·5
1935–36	16·7	10·0
1936–37	18·8	12·6
1937–38	22·0	15·0
1938–39	31·5	24·0

Where has the money to pay for this gigantic expenditure come from? We turn to the revenue side of the German Government's accounts.

Revenue (in billion marks)

Year.	From Taxes and Customs.[2]	From Unemployment Insurance.[2]	From Long- and Middle-term Loans.[2]
1933–34	6·9	0·1	0·8
1934–35	8·2	0·1	0·8
1935–36	9·7	0·2	1·7
1936–37	11·5	0·5	2·6
1937–38	14·0	1·0	3·3
1938–39	17·7	1·5	7·6

Year.	From Short-Term Loans and Bills.[3]	From Collections.	Total.
1933–34	*ca.* 1·6	*ca.* 0·3	9·7
1934–35	*ca.* 2·8	*ca.* 0·3	12·2
1935–36	*ca.* 4·7	*ca.* 0·4	16·7
1936–37	*ca.* 3·7	*ca.* 0·5	18·8
1937–38	*ca.* 3·2	*ca.* 0·5	22·0
1938–39	*ca.* 4·2	*ca.* 0·5	31·5

becomes apparent, however, that there is substantial agreement on what the German Government has spent and on how it has raised the money. The figures above are taken from various sources, published and unpublished, and represent what seem to me, all things considered, to be the most probable estimates.

[1] I use throughout this book the convenient American convention of calling a thousand million a billion.

[2] Official data.

[3] Less amortisation.

This is where the German Government has got the money from. Numerous commentators on the Nazi economy, especially in financial circles in Britain and America, have suggested that these figures reveal that the achievement of full employment by means of such gigantic government expenditure can be merely temporary. They suggest that the Nazi Government is pursuing a "Rake's progress", which must soon lead to "a financial collapse". And they have suggested this ever since, in 1933, the German Government's expenditure began to increase in this extraordinary way.

No writer on the progressive side of politics can fail to experience a strong temptation to accept this view. I am myself unable to do so, however. Indeed, the real impression which the above revenue figures must make upon the student is the ease with which the German Government has met the more than fourfold increase —from 6·7 billion marks in 1932–33 to 31·7 billion marks in 1938–39—in its expenditure. If we put the two receipt items of 1·5 billion marks from the unemployment fund and 0·5 billion marks from collections in the taxation column (where they really belong), and group (for the moment) the short-, medium-, and long-term columns together in one item of receipts from borrowing, we see that the German Government raised its 31·5 billion marks of expenditure by taxation as to 19·7 billion marks, and by borrowing as to 11·8 billion marks. Now, the hard truth is that there is nothing particularly unsound about such a procedure. The proportion of the borrowing to taxation is moderate, especially if we remember the fact that the German Government had little or no public, internal debt in 1932. As a matter of fact, the 1937–38 level of German public debt works out at some 40 per cent. of the total national income, while the British public debt stood in 1936, before the new borrowing for rearmament, at 220 per cent. of the national income. Moreover, as we saw in Chapter XVIII above, there is nothing to cause a "financial collapse" even in a national debt the size of the British, or, for that matter, in one double that size.

The proportion of borrowing which has been done on short term by means of bills, etc., is, indeed, unusually high, and has been severely criticised as inflationary—as likely, that is to say, to produce a cumulative and rapid rise in prices. Moreover, this impression is enhanced when it is discovered that some of this short-term borrowing was not borrowing at all in the ordinary sense of the word. The German Government did not, that is to say, get all this money by selling bonds to German citizens or corporations, who had accumulated this amount of savings. Some of this money has been borrowed from the German banking system by a complex process of the issue of short-term bills, discountable at the Reichsbank. As we saw in the case of America, this is merely a process of the creation of new money. The German Government and banks, acting together, undoubtedly created this amount of money, and the German Government has had to print a considerable amount of new currency notes to provide the necessary small change.

I am afraid that the fact must be faced that there was still nothing which must necessarily cause inflation in this procedure, at any rate during the early years of the Nazi régime. The reader will have noticed that this short-term "borrowing"—much of which was really the creation of new money—took place on the largest scale during the earlier years of the Nazi régime. At that time there was an ample supply of unused factors which could be, and were, brought into use to meet, by their increased output of real goods and services, the increased money demand, without an increase in prices. In addition, the above-described system of price controls was being built up during these years to ensure that the increased money demand should result in increased output rather than higher prices. American experience indicates, indeed, that this system of price controls was unnecessary for that purpose during the process of re-employment (although, no doubt, it was necessary to ensure that the bulk of the unused factors were re-employed on armament building).

Our figures carry us down to the eve of the war. (The German financial year ends at the end of June, so that the year 1938–39 runs to June 1939.) What difference will the outbreak of war have made? Will not this produce the long-foretold "financial collapse"?

Many observers believed that the 1938–39 figures revealed that the Nazi Government was in any case faced with "financial collapse". May we not suppose that the war has made this certain? Now, it is perfectly true that the Nazi economy is to-day (1939) being subjected to an enormous strain, in the sense that an extraordinary proportion of its productive effort is being directed towards armament-building. No financial measures can possibly prevent this from limiting severely the amount of consumption goods which can be produced for the German people. But so long as the German people can be made to stand it, there does not appear to be anything in this fact likely to produce either "a financial collapse"—whatever is exactly meant by that phrase—or inflation.

No doubt, if such conditions as exist in Germany to-day appeared in Britain, France, or America, there would be a strong tendency for wages, prices, and costs to start rising cumulatively. And that is inflation. But we have just described the extremely elaborate system of controls by which the Nazi Government strives to prevent this. What will happen if the Nazi Government insists, as in time of war it must insist, on increasing still further its rate of rearmament, and if it finances that increase by borrowings, partly of the short-term, money-creating type, is that the standard of life of the German people will sink still further. This will be inevitable, since now that full employment has been obtained, every additional factor of production which is put onto armament building must be taken off making goods and services for consumption; for there are no hitherto idle factors left to draw upon. Just how the reduction in the real purchasing power of the workers will be affected is not very important in this connexion—though it is to be expected that this may be an awkward question for the

Nazi Government in practice. There are several alternative methods. For instance, (1) wage rates may be cut, or (2) prices of consumption goods, though still kept under control, may be allowed to rise by a pre-determined amount, or (3) the rate of those taxes falling on the mass of the population may be increased. Probably the German Government, if it decides to increase its armament programme, will use all three methods to some extent. But the one real limiting factor on the whole procedure is that of how much the German people will stand.[1]

The next thing to notice about the German financial position is the total of taxation. Counting in the more or less forced contributions, as we should, the German Government now raises 19·7 billion a year in taxation. Is not this, it will be asked, a crushing burden, which cannot long be borne by the German people? Will not this more than doubling of the tax burden in six years prove an impossible measure? After all, the German people were heavily taxed in 1932. Can they possibly continue to bear over double the burden which they then carried with such difficulty? Will not the exhaustion of taxable capacity prove the limiting factor in Nazi finance?

Unfortunately such speculations ignore an essential factor in the situation. The German national income has gone up about as fast as has the size of the tax bill. The total of taxes and customs receipts formed the following proportions of the national income:

In 1928	18 per cent.	In 1935	23 per cent.
„ 1932	23 „ „	„ 1936	25 „ „
„ 1933	23 „ „	„ 1937	26 „ „
„ 1934	22 „ „		

[1] Judging by the reports received since the outbreak of the war, the German Government has mainly resorted to systematic reductions in money wages in order to make possible the further sharp reduction in the output of consumers' goods and increase in armaments which the war has, of course, made necessary.

We notice that the most severe increase in the tax burden in proportion to the national income took place during the economic crisis in the last years of the Weimar republic. Although the tax bill was cut from 9·0 to 6·6 billion marks, the percentage of the national income taken in taxation—and this is what matters—rose from 18 per cent. to 23 per cent. Since then it has risen further. This shows that, extremely severe as have been the increases in rates of taxation imposed by the Nazi Government, the real burden of taxation was increased just as severely by the inaction and incapacity of the preceding governments in letting whole sections of the economic system stagnate, and so greatly reducing the national income. Moreover, revenue from taxation amounting to 26 per cent. of the total national income, though very high, is by no means impossibly high. There is nothing in such a percentage to suggest an *impasse* which must result in immediate collapse.

The Nazis' "Secret"

We are now in a position to answer the question of what it is that has enabled the German Government to meet its vast expenditure of 31·5 billion marks a year. It has met that expenditure as to about a third by borrowing. But there is nothing particularly unsound in that. As to two-thirds, the expenditure has been met out of taxation. And what has made this possible is the remarkable increase in the national income. But that increase in the national income is itself but the financial reflection of the phenomenon which we have set out to explain—namely, full employment. We appear to be arguing in a circle. We said that it was easy to understand how a government expenditure of 31·5 billion marks a year had achieved full employment. Now we are saying that it is full employment which has made it possible for a government expenditure of 31·5 billion marks to be met.

Yes, the argument is circular. But it is from a consideration of this circle of cause and effect that we can

bring to light what is unquestionably the so-called secret of the Nazi Government. The Nazi Government dared to raise its expenditure to 31·5 billion marks, confident in the belief that if such expenditure would, as it must, set the German people to work again, the bill could be met somehow or other. But this is to put the point in much too narrowly financial a way. The Nazi Government did not decide to spend; it decided to arm. An armament programme on the Nazi scale is a basic form of economic activity. Therefore, from the economic standpoint, what the Nazi Government decided to do was to initiate a particular (and as it happened pernicious) form of public enterprise upon the grand scale. It decided to replace by its activity, by its acts of investment, by its entrepreneurship, those acts of investment on the part of the private entrepreneurs which had fallen off so disastrously between 1928 and 1932. It was this which did the trick. There is really no "miracle" or "secret" about the whole business, except this. It would have been perfectly possible for the governments of the Weimar Republic (if they had been prepared to take the necessary economic and political measures) to do the same thing. They could have met the slump by raising the spending (or investment, it can be called either) of the German Government to a point at which full employment would have been achieved. But they did not; and Hitler did. That, but that alone, is his secret and miracle.

This is not to say that if the Weimar governments had raised German expenditure from 6·6 billion marks to 31·5 it would have had the same effect upon the German economy as the Nazi programme of spending has had. First, a democratic government which had embarked upon such a programme of spending, and had spent on anything but armaments, would have encountered furious opposition from the German capitalists. Its necessary measures, such as the establishment of exchange control and the prohibition of the export of money, would have been fiercely resisted. Second, it would have had to rely upon the support and co-operation of the great German

trade unions, to which it would have had to give a vital rôle in the management of the economy. Third, it would, no doubt, have encountered a far less easy and accommodating spirit in the outside world, including the governments of Britain and France.

Finally—and this difference dwarfs even the others—a progressive German government undertaking such a programme would have spent the money not on armaments, but for the benefit of the German people. It might well have been forced to undertake some rearmament, if France and Britain had continued to refuse to honour their pledge to disarm. But the bulk of the money would have been spent upon: (1) distributions of money—such as old age pensions, for instance—which would have enabled the German people to buy, and so to work at producing, more consumers' goods of all sorts; (2) useful public works (above all, no doubt, housing); (3) loans at under the current rate of interest to entrepreneurs, whether public or private, who would undertake development schemes of all sorts. (In a word, on the type of objects discussed in Part I.) Needless to say the expenditure of the larger part of 31·5 billion marks a year on such activities would have transformed the position of the German people. It would have cured unemployment just as surely as did the armament programme. And instead of holding down the standard of life to a rigid minimum, it would have raised it to a height which the German people have never yet enjoyed. It would also, however, have had a different effect upon the German capitalist class. It would have inevitably encroached seriously, not indeed upon the profits, in the narrow sense of the word, which the German industrial corporations and individual entrepreneurs could have made (such a programme could, till full employment was reached, have raised profits in the same way as did the arms programme), but upon the rate of interest. It could only have been put through by a government at least as resolute for its purposes as are the Nazis for theirs.

However, there is no need to expatiate upon a hypo-

thetical programme of action and expansion which a progressive German government might have initiated at any time up to the spring of 1933. For Part II of this book was devoted to describing the programme of action and expansion which a progressive government—that of Mr. Roosevelt—actually did initiate in the spring of 1933.

Chapter XX: FASCISM AND MONOPOLY CAPITALISM

The Growth of Monopoly

Discussion of the German economy often takes the form of an argument as to whether that economy is still capitalist, or has become an economic form transitional to socialism. I have preferred to describe that economy. The reader can judge for himself what to call it. For my own part, however, I have not the slightest doubt that the proper name for a system having the characteristics and consequences described in the preceding chapter is capitalism. Nothing in all these elaborate controls has abolished those fundamental relationships between men engaged in the productive process which we call capitalism.

The control of the wages and occupations of the working population; of prices and supplies of raw materials; and of the balance of payments with foreign countries, together with the policy of keeping the factors of production fully employed by means of a very large volume of government spending, mainly on armaments, and financed by taxation and borrowing—all these things leave the ownership of the factories, mines, and fields of Germany in the hands of the German capitalists. They allow the rent, interest, and profit to be derived from their operation to flow into the hands of the German capitalists. It is true that some of the German capitalists are compelled to spend a great part of their gains, collectively, on buying armaments. But that does not alter the fact that rent, interest, and profit accrue to the German property-owners, and are spent, in the last analysis, for their benefit. Moreover, the German economy leaves the 19 million German wage-earners dependent for their livelihoods upon selling, week by week, their ability to labour to the owners of the German means of production, although now they cannot

ask for, or even accept if offered, more than an officially fixed price for it. That is capitalism. So long as that condition of things is in existence, capitalism, in one or other of its forms, is in existence.

This is not to deny, however, that capitalism can take distinguishably different forms at different times and places. Capitalism has hitherto had two main forms. It has had an original, distinctively competitive, form, in which within every sphere of production there were many competing firms, and in which, consequently, the system as a whole was almost exclusively regulated by the self-adjustments of the market. Now, it is perfectly true that the institution of the Nazi's comprehensive system of price-controls marks a final departure from this older kind of capitalism. For it was of the essence of this older form of capitalism that prices should be uncontrolled. The free movement of prices was itself the controlling factor in such an economy. Nothing could be done which interfered with this self-adjusting mechanism. The only measures which could be taken to increase employment were for the Government to attempt to remove any barriers to the smooth running of the self-adjusting mechanism, which might have grown up. The spokesmen of liberal, competitive, pre-monopoly capitalism have always claimed that the removal of such barriers (*e.g.*, the "barrier" represented by the tendency of trade unions to push the price of labour above the market price; the "barrier" of tariffs to international trade; the "barrier" of the protection of monopolies by Government subsidies or other means) was the best, and indeed the only, assistance which the Government could usefully give.

Every competent student of capitalism, whatever his political views, has recognised, however, that over the past thirty or forty years the capitalist system, first in one part of the world and then in another, has come less and less to depend on this self-adjusting mechanism. The cause of this extremely significant change has been the growth of combinations within the various spheres of production. Where there was competition there is mono-

poly. Not necessarily complete and perfect monopoly; but one or other degree of monopolistic price-fixing, ranging all the way from the simplest form of selling agreement, to the single, giant, unified firm, controlling the entire supply of an irreplaceable product. It has long been recognised that once the growth of such monopolies had passed a certain point, their existence modified one, though only one, of the main characteristics of capitalism —namely, the determination of all prices by the blind action of competition upon the market. It became necessary, therefore, to differentiate this new phase in the existence of capitalism. A name, or rather two alternative names, were found for it: monopoly capitalism, or Imperialism. And serious students of capitalism set themselves the task of discovering to what extent and in what way this new development of capitalism modified the hitherto operating laws of the system's existence and development.

Once the existence of this new type of capitalism has been realised, the nature of the modifications made by the Fascists becomes apparent. What the Fascists do is to take forward many steps farther than they have reached elsewhere the characteristic tendencies of monopoly capitalism. They eliminate the *competitive* element in capitalism to an extent hitherto almost undreamt of. They prevent, for example, the competition of employers seeking extra labour in conditions of full employment, and so tending to bid up the rate of wages. They prevent the competition of firm with firm, either by compulsory cartelisation, or, more directly, by fixing the prices at which products may be sold, the prices at which raw materials may be bought, etc., etc., etc. As we have seen, the establishment of this system of controls has, in Nazi conditions, been consequential upon the whole programme for the re-employment of idle factors of production by means of state orders for arms, financed from borrowing, etc.

Now, curiously enough, it has been this comprehensive elimination of competition from the German capitalist

system which has made, and still makes, many people suppose that Nazi economic policy is, when all is said and done, in some sense socialistic. Such observers have, it seems, identified capitalism with free competition, and socialism with governmental intervention in economic life, no matter what form such intervention takes and on whose behalf it is undertaken. They suppose that because, as is undoubtedly the case, the individual German Capitalist employer, or group of employers united in a joint-stock company, cannot now sell their product at whatever price they like, hire labour at a higher wage than the current one, even if they consider that it would pay them to do so, refuse to re-invest the rent, interest, and profit which they have made, or invest it in directions which would hamper the rearmament programme, they have been brought under a more or less socialistic régime. Such profound errors spring from equally profound misapprehensions. The essential, basic characteristic of capitalism is not competition, but the ownership of the means of production by a small class, so that the mass of the population must live by selling their ability to labour to that class. It is possible to go very far towards the elimination of competition, both between the different capitalist producers and amongst the workers in the sale of their ability to labour, without abolishing capitalism. And this is what the Nazis have done.

Would it be true to say, therefore, that the individual German capitalist employers are regimented simply for their own good; that since they, as a class, are the leaders and owners of the Nazi movement itself, it is merely self-regimentation? In the case of the smaller, and even the medium-sized, German employers, at any rate, I do not think that this would be by any means the whole truth. It is perfectly true that such German employers suffer coercion by what they feel, and what in fact is, an outside authority, and that they are often forced to take actions which are against their own immediate interests. This circumstance gives further colour to the illusions of those who would seek to impart something socialistic to the

Nazi régime. But upon whose behalf, and in whose interests, is this coercion of particular German employers exercised? If it were exercised on behalf of the German people in general, and the German wage-earners in particular, then indeed we might feel that it had a socialistic character. But in fact it is exercised, not the least on behalf of the German workers, but on behalf of the dominant German trusts and banks. And these trusts and banks are in any Fascist régime essentially those associated with the armament industry. They are the great organisations of heavy industry and engineering which produce the flood of armaments upon which a Fascist economy can alone float. Thus there does undoubtedly exist a conflict amongst the capitalists of a Fascist State. The smaller capitalists, associated with light industry, making consumers' goods, are coerced, kept short of labour and raw materials, and generally slighted, in favour of the great, monopolised armament industries.

This conflict also is not something entirely peculiar to Fascism. It is merely intensified by Fascism. It is everywhere a feature of monopoly capitalism that competition is eliminated, not so much by agreements between the various independent producers in any sphere of production, as by the coercion, and ultimately absorption, of the many small and weak by the few large and strong producers. There seems no doubt that it is this process which is going on, with redoubled speed, in Nazi Germany. So far it has not been so much a case of the actual absorption of small employers by the great armament trusts as of their rigid control on behalf of the great armament trusts. Thus, for example, it may well be that the profits of these smaller firms are held down to modest limits. But that does not mean that the workers in such firms have benefited by a single mark. It means that the structure of wages, prices, costs has been so arranged that the lion's share of the truly gigantic surpluses which the full operation, in present-day conditions, of the German productive system is piling up, is passed on to the few major armament trusts and banks

at the apex of the whole system. There is nothing socialistic about the system of controls imposed by a Fascist government. Fascism is the mind and face of monopoly capitalism.

Forced Investment

It is a curious fact that many of those who maintain that the Fascist economy has, after all, something socialistic about it, miss what seems to be their most plausible argument.

We concluded from our outline of that economy that the so-called "secret" or "miracle" by which full employment has been achieved was nothing more nor less than the expenditure or investment on the part of the Government of 31·5 billion marks a year, as to 19·7 billion marks on armaments. We next saw that the Government, in order to pay for this expenditure, has to take in 31·5 billion marks, partly by borrowing and partly by taxation. Now, this has involved, whether or not the Nazi leaders understood the process and consciously willed it, taking all that part of the incomes of the German people which they would not otherwise have either spent or invested, from them. Indeed, armament expenditure has now (1939) been pushed to such a point that it has been necessary to take much more than this; it has been necessary to take a great deal that the German people certainly would have spent. But in so far as this has been done it has merely transferred factors of production from making consumers' goods to making armaments. It was the taking of savings, mainly from corporations or rich individuals, which would not otherwise have been spent or invested at all, which alone increased the total of employment. Nor has it made much difference whether these sums have been taken by means of taxation or borrowing. When these sums have been taken they have been spent on or invested in—whichever you like to call it—the production of armaments. This is what makes impossible that falling off in the volume of invest-

ment which we discovered as the proximate cause of unemployment.

Let us look at this process in more detail. Let us suppose that in 1928 a German corporation made a million marks of rent, interest, and profit. The directors of that corporation—or, if they paid the money out in dividends, its shareholders—could have decided for themselves what to do with the money. They could have spent it on high living; or they could have reinvested it, either in their own business or in someone else's, in the hope of getting still more rent, interest, and profits next year. If they had done either of these things with all the money, there would have been no tendency for unemployment to appear. For the spending of the money would have set men to work on producing consumers' goods and services, and the investing of the money would have set men to work on producing producers' goods. But there was a third alternative. The corporation, or its shareholders, might not have wanted to spend all the money, nor might they have seen any opportunity for investment which attracted them. So they might have kept a proportion of the money lying by them, until such time as they saw something which they wanted to spend it on or invest it in. And if they had done that, unemployment must immediately have appeared. Moreover, it was precisely because the German corporations and shareholders, in common with the American and British corporations and shareholders, actually neither spent nor invested all the rent, interest, and profit which flowed into them at that time, that the great slump occurred.

Now let us suppose that our German corporation again made a million marks of rent, interest, and profit ten years later, in 1938. Is it now possible for that corporation, or its shareholders, neither to spend nor to invest any part of this sum? Not on your life. A large part of the sum must be handed to the Government either by way of taxation or in more or less compulsory loans, to be spent on armaments. And the Government will oversee the disposal of the remainder: will see that all the remainder is either

reinvested in the business, lent to other businesses, or distributed to shareholders, who in turn will have no opportunity except to spend or re-invest the whole of it.[1] This process is often called one of " forced investment ". And undoubtedly it is this process by which full employment is maintained. (Something more than this, be it observed, was needed to achieve full employment. In order to raise the level of employment it is necessary that corporations, individuals, and the Government, taken together, should spend or invest, not merely all, but more than all that they receive. This was accomplished by the German Government's initial borrowing from the banks, which was, as we suggested on p. 268 merely a thinly disguised form of the creation of new money.)

Now, is not forced investment, it will be said, an undeniably socialistic thing? Can there be any doubt that in this case the German capitalists are being controlled and regulated in the interests of society? Is it not the case that if the disposal of the surplus made out of the ownership of their means of production is, largely, taken out of their hands, and determined by the Government, that ownership itself becomes thin and nominal? For is it not precisely for the sake of the surplus which it brings them that capitalists value their ownership of the means of production? There is no doubt that this process of forced investment involves the regulation of the affairs of the German capitalists. But does it involve their regulation in the interests of society? If it does, then no doubt it is fair to call it socialistic. But if not, not. If, for example, we find that the German capitalists are undergoing this regulation in their own interests (or rather in the interests of their predominant members), then we shall find nothing whatever socialistic in the process of forced investment. We shall find nothing socialistic about it if it transpires that the final

[1] No doubt in the case of armament firms there has been plenty of incentive to reinvest surpluses in the business, and there has been government permission to do so. But in the case of non-armament firms there has often been compulsory re-direction of surpluses, so that they should neither be reinvested in the business nor held idle.

aim and object towards which the whole process is driving is to make possible again the normal voluntary, profit-seeking, reinvestment of the surplus of the German capitalists.

It will be by asking and answering this question that we shall be able to come to a conclusion as to whither the Fascist economy is taking the German people.

The Accumulation of Capital

In order to discover in whose interests the German capitalists are having the disposal of their surpluses overseen by the German Government, we must first notice what the size of these surpluses are. Now, there can be no doubt that the surpluses presently being made by the owners of the factories, mines, and lands of Germany are gigantic. These surpluses flow to them in the three forms of rent, interest, and profit. The size of these three taken together may be gauged from the fact that the average wage of the German workers is to-day equivalent to about 30*s*. a week. The German workers are some of the most skilled, efficient, and industrious in the world. Moreover, they are equipped with some of the most highly developed means of production extant. It is clear that, on the average, they must be producing values many times greater than 30*s*. a week. Moreover, every single available German worker is now producing. (This, we now see, is merely another way of saying that no part of this gigantic surplus fails to be either reinvested or spent.) Now, the difference between what the German workers are producing and what they consume (*i.e.*, 30*s*. a week) equals the total surplus going to the German owning classes.

We see at once the magnitude of the problem presented by the disposal of this vast surplus. It is a problem which faces every capitalist society, but it has, clearly, been enormously intensified by the Nazi measures, which have resulted both in full employment and in a sharp reduction of the share of the national product going to the mass of

the population for consumption. It is this problem which the Nazis meet by means of their technique of forced "investment" or the supervision of the disposal of the social surplus. In whose interests, we are asking, is this supervision undertaken?

Now, there is no doubt about what a normally functioning capitalist society does with the bulk of the social surplus which accrues to the owners of the means of production. The part which these owners spend on their own luxurious living is, in modern conditions, a relatively small one. The rest of the surplus is devoted to the accumulation of capital—it is invested, that is to say, in new means of production, which will themselves produce a surplus. And the bulk of this second surplus is reinvested in surplus-bearing means of production, and so on and so on. This is what Marx called the reproduction of capital on an expanded scale. It is clear that we have arrived, by means of another method of analysis, at that problem of investment which occupied our attention in Part I. Well, we know what the Nazis do in order to solve the problem. In brief they borrow, or take in taxation, that part of the surplus which would not otherwise be spent or invested, and spend it on armaments. They supervise the investment of the rest so that it aids the rearmament programme.

The question is: Can the German Government find in armament-building a permanent outlet for this vast surplus? This is the crucial question. When we have answered it we shall be in a position to see whither the Nazi economy is destined to steer.

The first thing to notice is that the devotion of a predominant part of this vast surplus to armament-building will not, in itself, provide for the accumulation of capital. For accumulation to take place it is necessary that objects shall be found for the investment of the new capital which will themselves produce still more new capital. To use more familiar language, the expenditure must be on productive, instead of unproductive objects. Thus, if out of the million marks which you have this year made out of your steel works you build a new steel works, you may hope that the year after you will make another million marks out

of the new works. So that you will then have a 2 million marks surplus, 1 million from the old works, 1 million from the new, and will be able to build a third steel works twice as big as the second. From your steel works No. 3 you will expect to make a 2 million surplus, amounting to a 4 million surplus from the three works taken together. And the 4 million surplus you will invest in a still vaster steel works —No. 4—which will, by itself, make a surplus of 4 million, making in all 8 million, and so on and so on by geometrical progression.

This is how, in principle, capitalist accumulation, or the reproduction of capital on an expanded scale, has always operated in the world. No wonder Engels said that the law of the expansion of gases was nothing to it! Now observe, however, what happens if, instead of investing your original million marks surplus from your steel works in another steel works, you have it borrowed from you by the Government, which then spends it upon armaments. There is no reproductive process here. The armaments do not in their turn produce a surplus. Guns do not make guns. Expenditure on armaments is wholly unproductive expenditure. From the point of view of economic development, it is as if the German capitalists had added the vast expenditure on armaments to their own, personal expenditure on living. They have bought so many millions marks worth of guns instead of that amount of country houses, motor-cars, yachts, champagne, or what you will. Only, of course, the German capitalists have bought their guns collectively through the agency of their Government. True, they have managed to make the working population pay an important share of the cost out of increased indirect taxation and levies. True also that they are paid interest on the money they lend, as distinct from the money which they pay in taxes, for the armament-buying. But they have had also to tax themselves to raise the money to pay that interest, so that it is a largely circular transaction. The only reality is that year by year they have handed over to the Government a large part of their surpluses, so that they might, collectively, buy armaments, though they have

chosen to disguise the transaction from themselves by paying themselves interest.[1]

[1] This is not to say that there has not been considerable genuine accumulation of capital under the Nazi régime. This is above all true of the armament industries. For the State has not taken, either by taxation or borrowing, by any means all the vast surpluses which the great dominant trusts of the armament industries, and the heavy industries generally, have made. Thus a trust like Krupps has had vast surpluses left to it after it has paid its taxation and lent all that was necessary for the arms programme, and has used these surpluses to build vast new plants which, as soon as they have been built, have themselves begun to make further surpluses. But such a process as this can obviously only go on for a time, so long as the final market for which the whole system is working is merely government orders for armaments. Moreover, it might be found upon investigation (if such investigation were possible, which it is not) that such accumulation was balanced in whole or in part by a considerable disaccumulation of capital in some parts of the economy (*e.g.*, the railways) owing to a failure to provide for depreciation.

Chapter XXI: WHY FASCISM HAS MEANT WAR

Why Not Arms For Ever?

It is now time to ask the question: Why does the Nazi economic system impel a state which embarks upon it along the path of aggression? That it does so is not now a matter of opinion; it is a matter of history. But why should this be so? Why could not an economic system such as has been described provide a basis for a stable, even if highly unpleasant and undesirable, type of society?

Two suggestions are often made in this connexion. Why, it is asked, cannot a Fascist economy carry on indefinitely simply by making and then scrapping its armaments for war? And, second, why cannot a Fascist system raise the consuming power of its own population, and so avoid any necessity for conquest of new external markets and fields of exploitation? Let us consider these questions in turn.

The reason why a Fascist State cannot, or at any rate certainly will not, make armaments for ever is of a different kind from what is usually supposed. There is clearly no technical limit to the amount of money which can be spent on armaments. As soon as you have built 10,000 bombers of one type, you can scrap them and build 10,000 new and more powerful bombers of another type. Have the Nazis discovered, then, a permanently stable, if clearly insane, method of keeping all the factors of production employed while leaving them in private hands? Is there any need for them ever to use their armaments? Why should they not for ever play the obsessional game of scrap and build, build and scrap to infinity? Why should not armaments, in a word, play exactly the part which Mr. Keynes believes the Pyramids to have played in Ancient Egypt? Is not there here discovered a never-ending outlet for that surplus labour of the community which the rulers will not allow

the population to devote to raising their standard of life, do not need for their own luxury expenditure, and see no attractive prospects for reinvesting in new means of production?

Let us examine the type of community which such an economy could support. The long steps towards the re-enslavement of the German wage-earners which the Nazi Government has taken, one after the other, are a logical corollary of its economic policy. There can be no doubt that any attempt to stabilise the German economy upon the above lines of devoting the entire reinvestible surplus [1] to armament-building in perpetuity, would have to be accompanied by the formal enslavement of the wage-earning population. No working class which had retained any element of freedom could indefinitely stand being kept upon a subsistence level of life while their entire surplus labour was used decade after decade to build and scrap, and scrap and build, armaments which were never used.

But—and this is the conclusive point—such an economy would not seem purposeless to the wage-earners alone. It would produce stagnation in the surplus of rent, interest, and profit received by all German capitalists themselves. The ever-increasing interest payments paid to them by the State would be balanced by the ever-increasing taxation which they would have to pay to the State. It is true that the inner ring of the directors, controllers, and owners of the great armament trusts and their privileged functionaries amongst the State and party apparatuses might receive very high incomes and live in great luxury. But it would be a static luxury. There would be no room for accumulation, for that progressive growth in the total of his income-bearing wealth which has been a capitalist's aim and object in life ever since there have been capitalists. Such a condition of things would, moreover, bear heavily upon the smaller capitalists and their entourage, who had not yet acquired

[1] The reinvestible surplus is simply the financial name for the entire supply of labour, over and above what can be devoted to satisfying the subsistence needs of the workers, the personal expenditure of the capitalists, and the renewal of the existing stock of capital equipment.

incomes large enough to satisfy their personal desires. For they too would have no hope of "bettering themselves". Surely the whole capitalist class, as well as the whole working class, would sooner rather than later come to feel that an ever more astronomical expenditure on armaments which were never used was intolerably expensive? They would forget that it was this expenditure alone which prevented the factors of production from again falling idle. The armament expenditure would be curtailed and the strange equilibrium would end, because it seemed to be no longer in anyone's interest to maintain it.[1]

We have at length discovered the real reason for the extreme instability of the Nazi economy. Such an economy need not necessarily lead to "financial collapse", or to "headlong inflation". All the same, it cannot permanently, or indeed for long, carry on upon the basis of keeping all the factors of production in employment by devoting the uninvestible part of the social surplus to armament-building. For such procedure does not succeed in re-starting the indispensable process of the accumulation of capital; and the accumulation of capital is the be-all and end-all of capitalist economies. If it is not re-started, the whole business will seem barren and aimless, not merely to the workers, but to the capitalists themselves. In a word,

[1] A rather less fantastic variant of the above conception of a stable Fascist economy is sometimes suggested. It is suggested that a part at any rate of the gigantic surplus of rent, interest, and profit annually produced should be used, still by the above-defined method of State borrowing and investment, on public enterprises other than armaments; that the country should be covered with a network of new motor roads; that colossal public buildings of all sorts should be provided, etc. (And this was actually done in the earlier years of the Nazi régime before armament-building began to absorb everything.) In so far as these public works were unproductive, in the sense of being incapable of producing revenue, the above economic considerations as to armaments apply to them also. The only difference would be that the workers and capitalists might not feel that the creation of endless roads, public buildings, etc., etc., was quite so irrational and intolerably expensive a procedure as the endless creation of unused armaments. The permanent devotion of all the surplus labour of the community to such public works would mean, not only that the workers' standard of life could not be raised, but also that accumulation on the part of the capitalists could not take place.

there is "nothing in" armament-building as an end in itself for the German capitalists. True, the armament capitalists may, and did, for some years make a good thing out of it at the expense of the other capitalists. But, in the long run, armaments are not a profitable repository for the surplus. In the long run, the arms must be used to win new territory, new "living space", in which new exploitation can be carried on. For "living space" simply means "profit-making space". Armament-building is in the nature of things no more than a mere stop-gap measure. Or rather it is merely an indispensable means to the supreme end (which the Nazi Government had only very partially achieved up to September 3rd, 1939) of the resumption of the process of the accumulation of capital. There is no way acceptable to a capitalist class of disposing permanently of the gigantic social surplus of a system which leaves the means of production in private hands, to be used for profit, except to find genuinely profitable objects of reinvestment. Before going on to consider the consequences of this conclusion, we must turn to the second suggestion as to a possible stability for a Fascist economy. Why should not those who direct a Fascist economy raise the power to consume of their own population, and so avoid producing this gigantic surplus, which can only be disposed of profitably by means of ceaseless aggression?

Why Not Raise Consumption?

Why should not a Fascist government prevent the appearance of an unmanageably gigantic surplus, which can only be disposed of by aggression, by raising the population's capacity to consume? Why, for example, has the Nazi Government chosen to beat down wages to the equivalent of 30*s.* a week, and so destroy the German people's power to consume? It is this which has produced that gigantic annual surplus which it is such a problem to dispose of. To put exactly the same point in terms of real things, instead of in financial terms, why has the Nazi régime so arranged matters that only a relatively small

proportion of the total labour force of the community can be engaged on producing consumers' goods and services, so that all the rest have to be found some other form of work?

The answer is this: the German Government could certainly dispose of an increasing output of consumers' goods, by allowing real wages to rise, but only at the cost of reducing the rate of return on their capital for the German capitalists. If, but only if, a Fascist government is willing to do this—is willing, that is to say, progressively to reduce the rate of rent, interest, and ultimately profit, obtainable by the whole capitalist class—does its problem become soluble on these lines. But the Nazis came to power just because the rate of rent, interest, and profit—the total return on German capital—had fallen too low to induce the German capitalists to invest on a sufficient scale to keep the factors of production employed. The Nazis smashed every barrier to an immense raising of the rate of return on capital (by beating down real wages and social services). But thereby they destroyed the community's capacity to consume. Hence they have to devote the gigantic surplus which results, first to the preparation for aggression, and then to aggression itself. It would be a reversal of everything which they have done for them now to turn round and allow real wages to rise again or to increase social services. This would indeed be a self-denying ordinance on the part of the now omnipotent owners of the German factories, mines, and fields, made to wage-earners whom they have striven to deprive of every possibility of struggling on their own account to get a larger share in the national product.

But, it may be objected, would not just such a self-denying ordinance suit the German capitalists, since it alone would enable them to sell their products? The answer is No; giving money to people in order that they should buy your products can never be good business. It can never "pay" the owners of capital to give the workers more money so that these workers can buy more of the goods and services which the capitalists have to sell. Business cannot be done on those lines. In order to conduct a profitable business

you have got to find a customer who does not need, first of all, to be given some of your money before he can buy your goods; you have got to find a customer who has got money himself.

Thus there is no prospect of a Fascist régime finding a solution for its problem of the ultimate disposal of its surplus by raising the real incomes, and so the capacity to consume, of the entire population. If it did so, then such a régime *would* begin to turn into the socialist society which many people so erroneously suppose it to resemble to-day. If it did so, the rate of rent, interest, and profit derived by the owners of the means of production would become lower and lower. As it approached zero such ownership would become only nominal. The entire product of the economy, after a proper and consciously determined amount had been set aside for capital renewal and development, would pass into the hands of the mass of the population. There could be no market problem. But that is socialism; that is how they have solved the problem in the Soviet Union. Can anyone envisage a Fascist régime seeking a solution along these lines? To do so would be for Fascism to turn itself inside out. And the converse of Fascism is, undoubtedly, socialism.

Is it not clear that the only way of finally solving the problem is to create a society the citizens of which will carry on production for motives other than those of self-enrichment in the capitalist sense (*i.e.*, in the sense of the accumulation of income-bearing property)? This will entail a profound re-making of every aspect of social life, a reversal of the dominant ideology, the unconscious, and so all-important, thinking and acting of the men and women who compose the community. In a word, it will entail socialism. Who can undertake this profound work of social transformation except the non-capitalist, working-class, popular forces which have developed, mainly in the form of a Labour movement, within every capitalist society? And these are precisely the forces which the Fascists have sought to destroy. How, then, can a Fascist community move in the socialist direction? So long as it is dominated

by its bankers and industrialists, the course of such a society is inevitably set in the most ultra-capitalistic direction possible; its course is set, that is to say, for the maximum possible rate of accumulation of capital and, which is the same thing, the minimum capacity to consume. The ideological structure of Fascism, which is imposed upon the community with such devastating thoroughness, is expressly appropriate for the most capitalistic régime imaginable.

It is impossible for such a society to turn round on itself and begin to carry out a socialist policy of increasing the population's capacity to consume. For all those social forces which could carry it in that direction have been destroyed, while all those forces which must drive it in the directly opposite direction of maximising accumulation at all costs have been given absolute power. To say that there is "nothing" to prevent such a society from solving its problems by increasing the population's capacity to consume until there is no indisposable surplus, is like saying that there is nothing to prevent a horde of, say, Red Indians, which has just wiped out a civilised mining settlement, from taking over the mining operations and the whole way of life of the complex community which it has destroyed. There *is* nothing to prevent it except that the whole nature, purpose in life, instincts, and traditions of the conquering barbarians prohibit them from even attempting to do so.

For those reasons the immediately pre-war talk about Hitler, if kindly assisted by a trifling loan of £1000 million, "putting the German economic system on to a peace-time basis" was completely ill-informed, when it was not a mere cover for helping Hitler at all costs. A Fascist economy cannot be put upon a peace-time basis. If it were it would cease to be Fascist, and the political régime would have to cease to be Fascist also.

Why Socialism Can Do It

Here we come to the essence of that antithesis between a Fascist and a socialist society which is so repeatedly

denied. It is true that one way of expressing that difference is to say simply that in a Fascist society the means of production remain in the hands of the capitalist class, while in a socialist society they pass into the collective ownership of a whole people. In a sense when we have said this we have said everything. But for many people such a definition of the difference seems barren and formal. They do not see that the difference in ownership will determine the whole character of the economy. They do not see that the class-ownership of the means of production must necessarily involve the maximisation of profit as the driving force of the system; that this, in turn, will entail the rigid limitation of the community's capacity to consume, and the consequent appearance of the apparently inexplicable problem of the disposal of the surplus; that from this, in turn, there must arise the poverty-in-the-midst-of-plenty paradox, the search for markets, imperialism, war—in a word, the capitalist world as we know it.

Equally, it is because people do not catch even a glimpse of these connexions that they cannot conceive why the problem of an inability to use the factors of production cannot even arise in a socialist society such as the Soviet Union. They do not see that in the Soviet Union it is not only possible, but so easy that the process may be called automatic, to increase the population's capacity to consume in any desired proportion to its capacity to produce. And even those people who do now see that this can be done, and is being done in the Soviet Union, do not see that it is just the *whole* character of a socialist society—the sum total of its citizen's productive and social relations to each other—and not any one aspect of it, which makes this finally possible. This, no doubt, is the explanation, and in a sense justification, of the feeling that the mere fact of the transference of the ownership of the means of production of a country from private to public hands is not enough to explain how the problem is solved under socialism. It is perfectly true that the new social motives, the new forms of

economic organisation, the new habits of mind, the new ideology, which can be built up on the public ownership of the means of production, are all indispensable to the apparent miracle of the final solution of the market problem in a socialist society.

It is only, for example, because in a society based on public ownership the controlling and directing personnel can and do work, in return for a salary, of course, but not in order to accumulate income-bearing wealth—because, to put the same point socially, the economy does not have to be geared to accumulation—that the capacity to consume can be increased simultaneously, and, if desired, parallel to, a constant increase in production.

But if a socialist society alone can finally *solve* the problem, any form of economic system which manages to raise steadily the consuming power of the population will be *tackling* the problem. This is precisely the aim and object of the programme which we developed in Part I. A community which has adopted such a programme will be unaggressive and un-imperialist to the extent to which it manages both to keep the wheels of production turning to the full and simultaneously to raise the consuming power of the population. Here we are merely elucidating the impossibility of an attempt to solve the problem on the lines of the maximisation of the population's capacity to consume on the part of Fascist communities. These communities have deliberately smashed all those social forces which could, by their very nature, move in this direction. Fascist States are foredoomed by the balance, or rather the imbalance, of the class forces within them, to rush blindly down the path of making capitalist production extremely profitable, and so raising it to a high pitch of activity, but of thus destroying the possibility of the ultimate disposal at home of the product. Hence for them unending expansion and aggression are indispensable.

Fascism's Necessity for Aggression

A Fascist régime cannot, then, permanently dispose of the vast surplus which it annually wrings out of the population by devoting it to endless armament-building; for this object of expenditure is unproductive, and what is needed is an outlet for the surplus which will itself in turn yield a surplus. Nor can a solution be found along the lines of preventing the surplus from arising, by allowing the real incomes of the masses to rise. For to do this would reduce the profitability of production, and so cause it to slacken. Finally, although there exist, as we showed in Part I, ways and means of escaping for a time, and to a certain degree, from this dilemma, it would be against the very nature of a Fascist régime to attempt to do so (except conceivably as a momentary manœuvre).

It becomes clear that nothing but an object of expenditure, or rather investment, for the surplus, which will be itself productive of a further surplus, can solve the problem of a Fascist régime. What is indispensably necessary for such a régime is to restart the normal process of profitable accumulation. If this can be done it will, for the moment, solve the problem. The gigantic surplus given off by each cycle of production of the existing means of production will be reinvested in new means of production, which in turn will produce a surplus, which in turn, etc., etc. The question is then: where can such objects of productive, profitable investment be found?

By hypothesis they cannot be found within the Fascist community. For if there had existed opportunities for investment on a sufficient scale, and of a sufficiently profitable character, the capitalist systems of those countries would have gone on functioning normally, and there would have been no need for the imposition of the whole Fascist economic programme. The German capitalists cannot hope, for example, to discover adequately numerous and adequately profitable opportunities of investment

within Germany. For it was just the exhaustion of such opportunities which produced the crisis which the Fascists are attempting to solve. For a number of years the German Government can, as we have seen, hold the problem in suspense by devoting the surplus, not to profitable, accumulative, investment, but to unproductive expenditure such as armament-building. But this is no solution. Where are adequate opportunities for profitable investment to be found?

The answer is only too easy to give. They are to be found outside Germany. Although sufficient opportunities for sufficiently profitable investment are no longer to be found within a highly developed capitalist State, such as Germany, they still exist in a great part of the rest of the world. Whenever Germany has overrun one of her neighbours—Austria, Czechoslovakia, Poland—she has found, or has created, new possibilities of exploitation for her capitalists. In some cases these countries were only partly developed, and new capital could be profitably invested there. In other cases the local capitalists could be, and were, dispossessed in favour of the great German trusts. But the most important opportunities for a profitable reinvestment of the surplus do not lie in Europe. A large part of the world is still relatively undeveloped. Literally from China to Peru there are still large opportunities for adequately profitable reinvestment of the surpluses earned by operating to capacity the massed means of production of the great industrial States. But who is to do the investing? Up to the present it has been the surpluses of the American capitalists which have been invested in Peru, and it is the Japanese capitalists who are seeking to invest their surpluses in China. In a word, the investment abroad of the vast surpluses inevitably given off by operating to the full the German means of production, while leaving them in private hands, is a real, if temporary, solution to the problem. It is the temporary imperialist solution. It is the expedient to which every capitalist society turns at a certain point in its development; at the same point,

indeed, at which monopoly begins to replace competition in its internal structure. The Fascists have found no new solution to the problem of the disposal of the surplus. There is none to find. They have merely driven the German economy back onto the imperialist path which it trod once before under its Kaiser, and from which it was thrown by the last world war.

Observe how perfectly the stop-gap measure of spending the surplus upon armaments fits into the German Fascists' programme of finding, in imperialist expansion, the final, profitable field for the reinvestment of the surplus. For imperialist expansion, above all to-day, is only conceivable in terms of war or the threat of war. Hence the vast unproductive expenditure on armament-building is not felt by the German capitalists as the intolerable burden which it would be if the armaments were not to be used. Armaments which were built and scrapped, built and scrapped, for an indefinite period would be found intolerably costly. Armaments which are seen to be merely the first necessary step towards the reconquest of opportunities for profitable investment are felt to be wholly tolerable. The organs of German capitalist opinion make no bones about what their armaments are for. The *Deutsche Allgemeine Zeitung* has accurately expressed the specifically economic aspect of rearmament for conquest.

> "A strong army whose technical equipment is by no means cheap, more than pays its way, not only because it protects, but because it increases the space and wealth of the German nation." (Quoted by Knop in *The Banker* for April, 1938.)

In a word, expenditure upon armaments is not in the long run an unproductive investment; for the armaments will open the way to opportunities for productive investments. Particular quotations are, surely, not required to show the determination of the German Government and governing class to use their armaments to open the way for them to a new Empire. The whole ideology

of Fascism, which is being pounded into the German people, is far more violently aggressive than that which any previous ruling class has imposed upon its people. And necessarily so. For this ideology cannot fail to reflect the fact that there is no possibility of existence for German capitalism other than the attempt continually to conquer new fields of investment, new markets, new supplies of raw materials to extract, and, above all, new supplies of labour to exploit.

NOTE TO CHAPTER II:
THE KEYNSIANS AND MARX

MR. KEYNES'S foremost supporter, Mrs. Joan Robinson, includes in her volume, *Essays in the Theory of Employment*, a review of my book, *The Nature of Capitalist Crisis*. In the course of it she summarises the impression of Marx's basic theory which she has derived from me. (The invincible reluctance of all capitalist economists to open the pages of *Capital* and see for themselves what Marx said has apparently held good in her case also.) She declares that for me the merit of the labour theory of value is that it enables us to know " the law of motion of capitalism ".

> " And this law [she continues] is based primarily upon the proposition (to translate into orthodox terminology) that an increase in the ratio of capital to labour tends to lead to a fall in the long-period rate of profit on capital. Now the argument by which this proposition is derived from the labour theory of value is completely circular, but the proposition itself is unexceptionable.
>
> " Thus when all the verbal jugglery is finished we arrive at a perfectly definite conclusion. In Marx's view the rate of profit tends to decline as capital accumulates, and an ever greater rate of accumulation is necessary to maintain production. As soon as the rate of accumulation is checked the crisis is upon us. The only way to cure the crisis is to increase accumulation. But this can only be done by reducing consumption. The system can only function so long as the capitalists are amassing more and more capital and the rest of the community consuming less and less goods. The pivot of the whole argument is that investment

cannot increase unless consumption declines. Thus Marxian theory is the direct outcome of the impasse created by the orthodox assumptions, and Mr. Strachey's remedy is to overthrow the capitalist system, not to abandon the assumptions."

In the first of the above paragraphs Mrs. Robinson subscribes, it will be observed, to what I venture to call the great theory of coincidence. Marx's arguments were nonsense. But his conclusions happen to be true. It is a remarkable theory, but let that pass.

In the second paragraph she, as it seems to me, states Marx's view correctly, with one important exception. Marx did not say that the ever-increasing rate of accumulation necessary to keep the wheels of capitalism turning could only be achieved by "reducing consumption". What he did say was that in capitalist societies consumption could not be allowed to increase, in proportion to the increasing productivity of labour, because of the necessity to maximise accumulation. Thus "the pivot of the whole argument" is not that "investment cannot increase unless consumption declines". The pivot of the argument is that investment (or accumulation) cannot be increased sufficiently rapidly to keep the wheels of industry turning, if consumption is allowed to rise as fast as the rise in the productivity of labour. It is this which blocks the way to all those attractive solutions by means of a policy of high wages with which we are so familiar.

On the other hand, if consumption is held down, or allowed to rise more slowly than the increase in the productivity of labour, a point is sooner or later reached when accumulation cannot go forward (in the absence of new inventions or foreign expansions); for the demand for the services of capital goods does not rise rapidly enough to offset the growth in their supply, and consequently the rate of profit which they can earn must decline. This is the central dilemma, or contradiction as Marx called it, of capitalism with which we are concerned, from one aspect or another, throughout these pages.

When, however, this error—it is perhaps merely an important over-statement—in her summary of Marx's views has been corrected, what has Mrs. Robinson to say in criticism? For is not this precisely the conclusion which has emerged from the analytic side of Mr. Keynes's work?

The truth is that once the tendency of the rate of profit to fall has been restored to the centre of the description of capitalism, a conclusion broadly similar to that of Marx as to the way the system works becomes unavoidable.

NOTE TO CHAPTER II: THE RISING PRODUCTIVITY OF LABOUR

ONCE WE have realised that the dilemma described in Chapter II is the essence of the matter, it is immediately necessary to introduce an important qualification to it. We have seen that the dilemma (I have elsewhere called it the dilemma of profits or plenty) only arises when our three outside stimulants to demand (new foreign markets, growth of population, inventions) are inadequate. But this is to look at the matter too simply. The last named of the three stimulants—*i.e.*, inventions—is continually changing the nature of the problem. As we have seen, the effect of inventions is to raise the productivity of labour. But if the productivity of labour is continually rising, the picture which we have drawn of the division of the ultimate product of industry between rent, interest, and profit on the one hand, and wages, etc., on the other, becomes a moving picture. For there is continually more to divide. Therefore rising real wages will not necessarily mean a rise in costs, or a fall in the quantity of profits being made. If real wages rise at the same pace as the productivity of labour rises, the quantity of profits can still rise at the same pace also. The division of the product will remain the same. Even so, however, the rate of profit will continue to fall. For the increased productivity of labour will (almost certainly) have been accompanied by an increase in the amount of capital used. Hence, even an increased *amount* of profit may mean the same *rate* of profit, or even a lower *rate* of profit. In many respects this is the crux of the matter. The fall in the quantity of profit will be checked, other things being equal, by inventions and the rising productivity of labour, but not the fall in the rate of profit.

This very seriously modifies our proposition that neither

raising nor lowering real wages will help to cure unemployment. For instance, if the productivity of labour is continually rising, the workers will be getting a continually smaller share of the ultimate product *unless* their real wages rise at the same pace. Such a drop in their share of the product will increase profits, on the one hand, but will soon make the product unsalable, by making the demand for consumers' goods and services (which, in the absence of our external outlets, can only come from the masses of the people) still more inadequate. Again, real wages will have to rise faster than the increase in the productivity of labour, in order to increase the workers' share in the product. If they do this, they will tend to increase the rate of profit by increasing the demand for (in relation to the supply of) consumers' goods and services, and so indirectly for capital, but they will reduce the rate of profit abruptly by increasing the costs of production. In a word, just the same dilemma applies to this, the real situation of a continually rising productivity of labour; but it applies to a situation which is itself continually changing.

No doubt it is a good deal more difficult to think of the problem in this form. But it is very important to do so. For to-day the productivity of labour is rising, and with startling swiftness. How swift that rise is is revealed by the findings of a memorandum published by the London and Cambridge Economic Service, entitled *Output, Employment and Wages in the United Kingdom, 1924, 1930, 1935*, by G. B. Schwartz and E. C. Rhodes. The productivity of labour in British factories rose between 1924 and 1930 by 5 per cent., or just under 1 per cent. a year. But between 1930 and 1933 productivity per employee rose by 20 per cent., or by 4 per cent. a year. Nor, as is often supposed, was this rapid increase in productivity confined to factory employment. On the contrary, productivity per head in public utilities and government departments rose by 27 per cent. between 1930 and 1933. In mines and quarries productivity rose by 17 per cent. between 1924 and 1930 and by 31 per cent. between 1930 and

1935 (and employment in this field fell by a full third). Most unexpected of all, the productivity of agricultural labour rose by no less than 40 per cent. between 1924 and 1935. The figures for particular industries are also remarkable. In textiles productivity rose by 37 per cent. between 1930 and 1935, and in engineering by the record figure of 52 per cent. in the same period. Thus, since the productivity of British labour has risen by 20 per cent. in the past five years, it would have been possible to raise real wages to this degree without decreasing the share of the product going to capital.

However, the rate of profit at the beginning of the period (1930) was notoriously too low to induce the employers to employ all the men and machines available. Indeed, it was so low that it was flinging the economic system into the depths of the great depression. What happened, then (there were some important other factors in the situation), was that as and when the productivity of labour rose, real wages (though they rose) failed to rise so fast, the share of the workers in the ultimate product fell, the rate of profit rose, and "recovery" appeared. But a recovery produced in this way could, of course, have but one end. Since the share in the product going to the population as a whole was falling, demand for ultimate consumers' goods could not keep pace with their supply; consequentially, the demand for capital, too, began to flag. The rate of profit began to fall again. A new and extremely acute slump (this time to be caught and checked by armament-building) duly appeared in the autumn of 1937.

It is clear that we must now re-phrase our statements on the subject of real wages, in order to allow for the rising productivity of labour. What economists call the "equilibrium position"—the position, that is to say, when the quantity of profit will neither be rising nor falling—is not when real wages stay put, but when they rise at the same pace as the productivity of labour. But the dilemma remains just the same. It still remains impossible to improve employment under capitalism (in the absence of

new foreign markets, rising population and an increasing flow of capital using inventions), unless you can find a way of increasing the purchasing power of the working population, without raising the cost of production (or—which comes to the same thing in some respects—unless you can find a way of decreasing the cost of production without decreasing the purchasing power of the population).

When once, however, we realise the rapidity with which the productivity of labour is now rising, we shall see that steadily rising real wages, while admittedly no cure, in themselves, for the unemployment of men and machines, are absolutely necessary in order to prevent unemployment and general stagnation getting rapidly worse. For, if real wages do not rise, the rising productivity of labour will mean that the workers' share in the final product will be continually dropping. Consequently the problem of the disposal of the product will become insoluble. In the absence of a far stronger stimulus from our two other outlets (ever opening foreign markets and ever rising population) than we can possibly anticipate to-day, appalling unemployment and stagnation will appear, simply because nothing like all the ultimate consumers' goods and services which can be made will be able to be sold. Steadily rising real wages are, therefore, not only immensely desirable in themselves, but are also indispensable to a successful attack upon the unemployment problem.

What was asserted in Chapter II was simply that, because of their effect upon costs, rising real wages are not, unfortunately, in themselves, as some writers have supposed, a cure for unemployment. Something more is indispensable. Therefore, the economic programme which we seek to draw out of our discussion concentrates upon other methods of increasing the purchasing power of the mass of the population; upon methods which do not involve, or which involve to a lesser degree than do rising real wages, an increase in the costs of production. But it must not be supposed that such a programme, if it succeeds

in combating unemployment, will not have an effect upon wage rates. On the contrary, anything which improves employment will have the most marked effect upon wages. For it will vastly increase the bargaining power of all wage-earners. Indeed, the chief objection of many economists to this type of programme is that it will raise wages much too fast and too far! That is certainly not a consideration which will discourage us from its examination.

Note to Chapter III: THE MISDIRECTION OF PRODUCTION

It may be interesting to notice the extent, and the limits, to which Mr. Keynes considers that definitely socialist measures should be included amongst those which flow from his general theory. Mr. Keynes calls for the State to " organise investment ". The word " organise " seems to imply something more than an attempt to maximise the volume of investment. It seems to imply an attempt to direct investment; a qualitative as well as a quantitative control. This idea is expanded in a passage in the Concluding Notes:

> " I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary. Moreover, the necessary measures of socialisation can be introduced gradually and without a break in the general traditions of society " (p. 378).

This passage has often been quoted in support of the view that Mr. Keynes advocates some sort of National Investment Board, and the word socialisation gives colour to this idea. But the later sentences of the passage suggest,

on the contrary, that there is to be no attempt to direct investment—but only to increase it. On the whole, this seems to be Mr. Keynes's view. But here he seems to me not to have fully thought out his position as yet. He has not made up his mind as to whether he thinks that all that is wrong with capitalism is that it now fails to employ all the factors of production. Sometimes he says that this is the only trouble. Sometimes he implies, though I think without fully realising that he is implying it, that capitalism also misdirects those resources which it does employ. As this is an issue of far-reaching importance, let us compare two passages.

Again in the Concluding Notes Mr. Keynes writes:

> "To put the point concretely, I see no reason to suppose that the existing system seriously misemploys the factors of production which are in use. There are, of course, errors of foresight; but these would not be avoided by centralising decisions. When 9,000,000 men are employed out of 10,000,000 willing and able to work, there is no evidence that the labour of these 9,000,000 is misdirected. The complaint against the present system is not that these 9,000,000 men ought to be employed on different tasks, but that tasks should be available for the remaining 1,000,000 men. It is in determining the volume, not the direction, of actual employment that the existing system has broken down" (p. 379).

That seems definite and clear cut. But Mr. Keynes begins this final chapter with these words:

> "The outstanding faults of the economic society in which we live are its failure to provide full employment and its arbitrary and inequitable distribution of wealth and incomes" (p. 372).

Is it not clear, however, that if an economic system produces an "arbitrary and inequitable distribution of wealth and incomes" it must be "misemploying the factors of production which are in use"? Is it not clear

that maldistribution of incomes is merely another name for the misdirection of production? What, after all, do we object to in the extreme inequalities of income which exist in all capitalist societies? What is it that makes Mr. Keynes call them "arbitrary and inequitable" and single them out as an "outstanding fault" of the system? It is, of course, that they result in one class of the community being satiated with luxuries before the elementary needs of the rest of the population have been satisfied. They result, for instance, in labour and other factors of production being employed in building yachts for millionaires instead of being used to build houses for people who are without tolerable shelter. Mr. Keynes, when he is thinking in terms of production, answers that the real trouble is not this, but that an important part of the available factors are not used at all; that we build neither houses nor yachts, but are idle. When, however, he is thinking in terms of income, he agrees that both these characteristics of the system are "outstanding faults". His first answer naturally leads him to deny that there is any need for conscious intervention in the direction of investment, or, what almost comes to the same thing, for the redistribution of incomes. His second answer would necessarily lead him towards advocacy of some such proposal as a National Investment Board, and to redistributory taxation.

It may well be that the question of whether or not Mr. Keynes's theory leads him and his supporters in a reactionary or a progressive direction will finally depend upon whether or not they come to admit that both faults of capitalism exist, and that both are pernicious; on whether they adopt, that is to say, the view expressed in the first or in the second of the two passages quoted above.

Note to Chapter IV:
THE "ZERO-INTEREST" UTOPIA

It is important to go more fully into the question of the rate of interest, which was treated so summarily in Chapter IV. Marx long ago declared that there was no such thing as a natural rate of interest, and that, in principle, the rate of interest could fall to any desired extent. But he was careful to give due weight to the practical qualifications.

> "No such thing as a 'natural' rate of interest exists . . . by natural rate of interest people merely mean the rate fixed by free competition. There are no 'natural' limits for the rate of interest. . . . The minimum limit of interest is wholly undefinable. It may fall to any depth. But counteracting circumstances will always appear and lift it again above the relative minimum." (*Capital*, Vol. III, pp. 419–21.)

He goes on to show that "the high or low rate of interest in a certain country is to the same extent" (as the rate of profit) "inversely proportional to the degree of industrial development."

Mr. Keynes, in the *General Theory*, takes this view. He believes that the rate of interest can, in principle, be set at any desired figure down to zero by those who control the banking system. (Mr. Keynes states his qualifications to this assertion on pages 207 and 208 of his book. They are inessential.) Mr. Keynes arrives at this conclusion by throwing over completely the orthodox view that interest is a reward for, in Marshall's phrase, "waitings". He believes that, on the contrary, people actually desire to "wait" in the sense that they desire to save a part of their incomes, in order to provide against future risks, and so require no inducement to do so.

What they do require an inducement to do is to lend out those savings, and so subject them to risk, instead of preserving them, hoarded, in a perfectly liquid form. And Mr. Keynes has an elaborate discussion of the degrees and conditions of "liquidity preference", as he calls it, which obtain in different circumstances. The strength of this preference will, it is evident, depend upon the confidence felt by the holders of money in the safety and profitability which their money will enjoy if it is "locked up" in some specific investment (*i.e.*, if it is embodied in some particular sort of means of production). He comes, however, to the conclusion that the banking system can nullify a rise in the public's "liquidity preference", which must otherwise put up the rate of interest, by simply issuing more money. If, that is to say, individual holders of money will not lend enough money at a rate sufficiently low to encourage the entrepreneurs (private and public) to borrow, the banks can simply create this money and lend it to the entrepreneurs themselves. (Professor Pigou, in the review in *Economica* quoted in Chapter I, asks a little breathlessly whether Mr. Keynes can really mean this. He concludes that his old pupil cannot have strayed so far. But it seems to me that he has.) Indeed, it is possible that Mr. Keynes is now under-estimating some of those "counter-acting circumstances" which, as Marx says, will in practice appear and tend to raise the interest level again.

What, then, are the objections which orthodox capitalist economists have always made to suggestions for lowering the rate of interest? The main statement of these objections has been made by Professor Cassel. Here I desire to quote, by permission, from a hitherto unpublished paper by Mr. H. D. Dickinson of Leeds University, who has given careful attention to this question:

"In his recent book *The General Theory of Employment, Interest and Money*, Mr. Keynes suggests the possibility of the painless extinction of the *rentier* through the general fall of the rate of interest to zero.

war[1] over the average of (say) each decade seem to have been sufficient, taken in conjunction with the propensity to consume, to establish a schedule of the marginal efficiency of capital which allowed a reasonably satisfactory average level of employment to be compatible with a rate of interest high enough to be psychologically acceptable to wealth-owners" (p. 307).

It was possible, Mr. Keynes continues, to have a rate of interest of about 5 per cent., with between 3½ per cent. and 5½ per cent. for gilt-edged, and yet to maintain enough investment to produce "a level of employment substantially below full employment, but not so intolerably below it as to provoke revolutionary changes". But this was possible not only because the above-mentioned factors kept up the rate of profit, but also because real wages could be kept from rising too fast, sometimes by cutting down money wages, sometimes by raising prices.

The contemporary situation is, Mr. Keynes believes, far more difficult:

> "To-day and presumably for the future the schedule of the marginal efficiency of capital is, for a variety of reasons much lower than it was in the nineteenth century. The acuteness and the peculiarity of our contemporary problem arises, therefore, out of the possibility that the average rate of interest which will allow a reasonable average level of employment is one so unacceptable to wealth-owners that it cannot be readily established merely by manipulating the quantity of money." (p. 308).

Elsewhere in his book he estimates (p. 218) that—

> "institutional and psychological factors are present which set a limit much above zero to the practicable decline in the rate of interest. In particular the cost

[1] Thus Mr. Keynes lists the first two of our main factors sustaining the rate of profit—*i.e.*, invention and population. "The opening up of new lands" is what we call Imperialism. The frequency of war is, of course, intimately related with this process.

of bringing borrowers and lenders together and uncertainty as to the future of the rate of interest, which we have examined above, set a lower limit, which in present circumstances may perhaps be as high as 2 or 2½ per cent. on long term."

In a footnote Mr. Keynes reproduces the traditional financial aphorism that "John Bull can stand many things, but he cannot stand 2 per cent." [1] In a word, any attempt to offset the falling rate of profit, and so sustain the amount of investment, predominantly by acting on the rate of interest, will come up against formidable resistance on the part of dominant sections of the ruling class. Here undoubtedly Mr. Keynes is realistic. However, Mr. Keynes himself, in some passages, and his followers much more markedly, have built upon his theory of the rate of interest a suggestion of a sort of new economic system which might be called "zero interest capitalism". Mr. Keynes himself writes:

> ". . . a little reflection will show what enormous social changes would result from a gradual disappearance of a rate of return on accumulated wealth. A man would still be free to accumulate his earned income with a view to spending it at a later date. But his accumulation would not grow. He would simply be in the position of Pope's father, who, when he retired from business, carried a chest of guineas with him to his villa at Twickenham and met his household expenses from it as required.
>
> "Though the rentier would disappear, there would still be room, nevertheless, for enterprise and skill in the estimation of prospective yields about which opinions could differ. For the above relates primarily to the pure rate of interest apart from any allowance for risk and the like, and not to the gross yield of assets including the return in respect of risk.

[1] It was, as Mr. Keynes notes, Walter Bagehot, who quoted this late-nineteenth-century aphorism. What John Bull did, between 1875 and 1920, to avert 2 per cent. was to turn to intensified imperialism.

Thus unless the pure rate of interest were to be held at a negative figure, there would still be a positive yield to skilled investment in individual assets having a doubtful prospective yield" (p. 221).

Few indeed would deny—with or without a little reflection—that enormous social changes would result from the establishment of a society which regulated its affairs in this fashion. Nor is it difficult to draw an attractive picture of such a hypothetical community, in which the lending function had been taken over by the public authorities, and only the active function of the entrepreneur remained in private hands. It would be a sort of extension of the project which Marx always declared to be a logical one for a *bourgeois* society—namely, the old land-reformers' project by which private rent-taking would have been eliminated by the nationalisation of the land, and the class of land-owners abolished. In the Keynsian implication (it is no more) of the social control of banking and credit, interest would have disappeared also, and with it the class of *rentiers*, so that, of the three subdivisions of surplus value, profit alone would remain.

Mrs. Robinson, perhaps playfully, suggests in her review of *The Nature of Capitalist Crises* that the Keynsian intellectuals' "answer to Marxism" is that "when capitalism is rightly understood, the rate of interest will be set at zero and the major evils of capitalism will disappear". It is just when the possibilities of reducing the rate of interest are exaggerated in this way that the whole discussion becomes valueless, not to say harmful. It is just when what is, in my view, a genuinely useful plank in a progressive programme—in a programme, that is to say, which itself has no pretensions to doing more than meet, for a certain period, the particular situation which confronts us—is elevated into a panacea which can establish some new, third, economic system which is neither capitalism nor socialism, that the whole investigation of the possibilities which may lie in the

sphere of finance is in danger of becoming discredited. For the concept of "zero-interest capitalism" is invalid, in that it treats of a highly dynamic process in static terms—treating what may well be a useful method of change as the basis of a new system. Such a concept can only be made even to sound realistic if its economic aspects are torn out of their political context. It is only if we cease to think of the existing capitalist society as it really is, if we cease to consider the living, breathing, active participants in the social struggles of to-day, and think instead in terms of an economic model constructed according to our own fancy, that we can make "zero-interest capitalism" sound as if it were the solution of our problem.

Note to Chapter V: "PROPENSITY" AND CAPACITY TO CONSUME

Mr. Keynes, in his *General Theory*, on the whole advocates attacking unemployment by means of increasing the number of workers employed on making public works and means of production, as against attempting to increase the number which can be employed making consumers' goods and services. To put the point in financial terminology, he is for maximising investment, so that it shall be equal to the task of absorbing all the savings which people will make in conditions of full employment, rather than attempting, by the redistribution of incomes, to cause the community to spend more and to save less. On the other hand, he agrees that if they did that, then a smaller volume of investment would be necessary to maintain full employment.

Unfortunately, however, this section of Mr. Keynes's argument is the least satisfactory or realistic part of his book. Two chapters (Chapters 8 and 9) are devoted to a consideration of the subjective and objective conditions which govern the population's "propensity to consume", as he calls it, as against their propensity to save. But the whole inquiry is conducted in the most abstract way imaginable. It is hardly too much to say that the potential savers or spenders are regarded simply as "people in the abstract", without reference to their position in society; that there is no real attempt to study, first, the saving and spending habits of the capitalists (rentiers, entrepreneurs, landlords, etc., etc.); then of the wage-workers, and then of the intermediate sub-classes. Everybody is lumped together and treated almost as if their position in society made no difference to their propensity to consume. Naturally such treatment leads to little illumination of the subject.

Mr. Keynes's main generalisation is that

> "The fundamental psychological law, upon which we are entitled to depend with great confidence both *a priori* from our knowledge of human nature and from the detailed facts of experience, is that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income" (p. 96).

No doubt that is true enough. And no doubt it supports Mr. Keynes's conclusion that as the community gets richer —both in the long run, by accumulating more and better means of production, and in the short run, by emerging from a depression and employing all the factors of production—the volume of investment must rise (if the factors of production are to be kept employed), and rise disproportionately, because people, being richer, will not only save more, but will save a higher proportion of their higher incomes. Hence Mr. Keynes's intense preoccupation with maximising investment. For he sees that it is precisely in the case of these richer communities that it is so difficult to find sufficient objects for profitable investment. (Because of the tendency of the rate of profit to fall as capital accumulates and the other factors discussed in Chapter I.) This is certainly another, and useful, way of stating what is perhaps the fundamental contradiction of capitalism.

But from another point of view it obscures one of the main characteristics of the system. For surely nothing can be more obvious than that the essential reason for "the community's" relatively low propensity to consume is the extreme maldistribution of income? To be sure, Mr. Keynes never denies this. Indeed, he once or twice agrees, more or less clearly, that this is so. But for the most part the division of the community into, say, 85 per cent. of the population who must spend almost all their tiny incomes, 10 per cent. who can save a varying proportion of their moderate incomes, and 5 per cent. who cannot very well help saving a very high proportion of their vast incomes, is

almost ignored. For instance, on p. 27, Mr. Keynes tells us that—

> "Thus, to justify any given amount of employment there must be an amount of current investment sufficient to absorb the excess of total output over what the community *chooses* to consume when employment is at the given level."

On page 29 he adds that—

> ". . . when our income increases our consumption increases also, but not by so much. The key to our practical problem is to be found in this *psychological* law." (My italics in both cases.)

But what matters is not the *propensity*, but the *capacity*, to consume. The change of word is significant. The propensity to consume suggests that it is a matter of desire or even whim; of a "psychological" law relating to what people "choose to consume". This is true enough, no doubt, for that quite small minority of the population who have incomes which enable them to purchase a considerable surplus above what contemporary opinion feels to be the necessaries of life. It obscures the fact that for the vast majority of the population there is no question or doubt about their *propensity* to consume if only they get a chance; it is their *capacity* to consume that is tragically deficient. And that capacity to consume can only be made to grow by means of measures which redistribute income from the rich to the poor.

This is the conclusion which has always, hitherto, been drawn from this kind of reasoning. Mr. J. A. Hobson in particular has spent a lifetime in advocating redistributory taxation as a remedy for "over saving". Again Mr. Keynes does not deny this conclusion; indeed, he has a passage in his Concluding Notes which commends Mr. Hobson and implies support of redistributory taxation (pp. 372, 373). For, he writes, the raising of the propensity to consume which such taxation will effect, far from

being a barrier to capital accumulation, as is usually alleged, will, by making full employment possible actually maximise accumulation also.[1] For savings, though they will be a lower proportion of the national income, will actually be a higher absolute amount.

Taking Mr. Keynes's book as a whole, however, we can say no more than that it does, in passing, contain support for measures for the redistribution of income. Nearly all those younger economists who have been deeply affected by Mr. Keynes's work lay far more stress than he does upon the need to increase the community's capacity to consume by redistributing income more equally. It would be hardly too much to say that Mrs. Robinson, Mr. Harrod, Mr. Meade, and most of all Mr. Douglas Jay, regard the desirability of heavy additional redistributory taxation as one of the most natural and important conclusions to be drawn from Mr. Keynes's *General Theory*.

[1] It will, evidently, maximise the amount, while diminishing the rate, of accumulation.

Note to Chapter VIII: THE VELOCITY OF CIRCULATION

THE THEORETICAL possibility of financing the measures of a progressive programme by an increase in the velocity of the circulation of the existing supply of money, instead of by the creation of new money, leads us directly to an alternative way of stating the problem of unemployed factors of production to the one adopted in these pages.

Money has its lowest conceivable velocity of circulation when it is lying hoarded in the form of currency in a safe deposit box. Its velocity of circulation is then zero. Now, one of the consequences of the falling expectation of profit is to cause the rich to tend to hoard that part of their incomes which they do not spend on their own wants, instead of investing it. In other words, they tend to save more than they invest. This results in pools of idle, or semi-idle money (we need not go into the question of the various degrees of idleness of money which can exist) forming in banks, strong boxes, and elsewhere. As the velocity of circulation of this money is either zero or very low, the average velocity of circulation of all money is pulled down. This average velocity could be greatly raised, so that no new supply of money might be needed, if this hoarding tendency of the rich could be overcome.

It used to be said (by Mr. Keynes, for example, in his *Treatise on Money*) that what was happening when general unemployment appeared was that the capitalist entrepreneurs, failing to see profitable objects on which to invest their accumulating surpluses, simply hoarded these surpluses. By so doing they sterilised so much money and, in effect, withdrew it from circulation. Thus a government which, in such a situation, created new money would be merely replacing in the circulation those hoards which

had been withdrawn from it. By so doing it would bring the total amount invested back to equality with the total amount saved, and so bring the situation into equilibrium. There is, however, no concept which Mr. Keynes and his followers now repudiate quite so vehemently as this one of the need to achieve equality between savings and investment. They insist that, on the contrary, if the volume of investment lags behind what is necessary to employ all the available factors, over and above those which can be used for producing consumers' goods, at the given propensity or capacity to consume, what will immediately happen is that the total national income will fall, so that there will be no savings to hoard.

In the last analysis this amounts to saying that in the long run it is impossible to hoard. If, on the average, the recipients of incomes larger than will suffice for their immediate needs—if, in a word, savers, attempt to preserve their savings, not in the form of a title, direct or indirect, to newly created means of production, but in the form of almost perfectly liquid claims to goods and services—then the national income will sink, production will fall off, and all incomes will tend to fall. The hoarder will seem to himself to succeed in hoarding. Money will seem to perform its traditional function as a store of value. But, in fact, it will not. For the source out of which the hoard was made will begin to dry up. If, for instance, the hoarder has put aside to be idle £10,000 out of an income from rent, interest, and profit, which last year amounted to £100,000, he will next year, if (but only if) other people are on the average doing the same thing, find that his income has gone down—very possibly by much more than £10,000. For in a very real sense all gold is faery gold. If you try to hold money, if you arrest it in its perpetual flight round and round the circulatory system, it turns into dead leaves, or something worse, in your hands. If you do not cast your bread upon the waters, it will vanish in your hands.

There is nothing, surely, surprising in this. Money (see note to Chapter IX, p. 330), is "the independant existence of value". Value is the result of labour. A pound

held idle is therefore so many men-hours of potential labour held idle. Somehow the monetary circulation has to adjust itself to the decisions of those who control the system. If the major savers fail to decide to do anything with their savings, this really means that they decide to hold so much labour idle. At the next cycle of production the income which would have resulted from the employment of this labour does not materialise. Therefore there is now nothing to save.

In this way saving, if it takes the form of attempted hoarding, always reduces itself to the same level as investment. The system, Mr. Keynes now declares, is always in equilibrium in this sense. There is no need to worry our heads about savings equalling investment: the adjustment takes place automatically and immediately. But the point is that the equilibrium reached may be, and will be, unless investment is adequate, one which leaves substantial factors of production, including millions of workers, unemployed.

At a first hearing it is difficult to understand why Mr. Keynes and his supporters insist so strongly on this change of theory; it sounds as if their new argument was in fact only another, and perhaps improved, way of putting the old point. I have come to the conclusion, however, that they are right in believing that this change of their analysis is of great importance. For what it really means is that Mr. Keynes has finally completed his monetary analysis—has pushed it through into the world of real things. For what the new way of describing things really means is this. What matters is that there should be, somewhere in society, a sustained initiative in the economic field. Production cannot be kept going unless there is somewhere a directing, organising, initiating force which takes command of the available factors of production, the capital and labour which would otherwise be lying idle, and sets them to work. When capitalism was functioning healthily, the entrepreneurs, individual and corporate, who were working for profit could be relied upon to perform this function, with only temporary interruptions. But now this class, because of the falling rate of profit caused by the gradual closing of the

opportunities of investment, is losing its power of social initiative. (This is the process which we analysed in Chapter I.) Unless that initiative is replaced by some collective initiative, which, in a modern community, can only be exercised through the executive government, the wheels of the productive system flag and finally stop. But if that initiative is replaced, if the Government has the courage to act, to take command, by one means or another, and, whether directly or indirectly, of the masses of capital and labour which are lying about unused, then the purely monetary problem can be largely left to look after itself.

The monetary situation is essentially circular. The more money the Government and the banks pay out, the more will be paid into them. Once all the factors of production are working, the creation of more money cannot do the faintest good, and may do much harm. But so long as substantial factors are idle, the fact that energetic social initiative on the part of the Government will involve more money being created (in one way or another) must not, on pain of the paralysis of all constructive effort, be allowed to restrain the Government from acting.

Note to Chapter IX: THE NATURE OF MONEY

IT IS highly desirable to consider the nature of money more closely than was possible in the rough-and-ready treatment which is all that is attempted in Chapter IX.

I ask the reader's permission to reproduce here from my book, *The Nature of Capitalist Crisis*, a definition of the nature of money. I prefer to do so, rather than to attempt to re-write that definition here, since this will enable me to show in what respects my views have, and have not, changed since that time. I had written that money is the independent existence of value; that this meant that—

> " money *is* the unconscious expression, the fetish, to use a modern term (but one which Marx employs), of the social character of labour. 'The Social character of labour appears as the money-existence of commodities,' writes Marx. He means that under capitalism the only way in which the fact that we are all dependent upon each other's labour can be expressed, is that the tangible or intangible results of our labours should all be exchangeable one with another, by being all and each exchangeable with money.
>
> " The secret of money is, then, that it is the unconscious, fetishistic, expression of the social character of wealth. For under capitalism, which is based on the private individual ownership of wealth, the fact that wealth has become, with modern large scale productive methods, almost completely social as opposed to individual, both in the manner of its creation, and to a large extent even in the manner of its enjoyment, can only find expression in an unconscious mystified way. Engels in one of his interpolations (to the third volume of

Capital) puts the point in this way. He says that under capitalism, ' the wealth of society exists only as the wealth of private individuals, who are its owners. It shows its social capacity only in the fact that these individuals exchange the qualitatively different use-values mutually for the satisfaction of their wants. Under the capitalist production they can do so only by means of money. Thus the wealth of the individual is realised as a social wealth only by means of money. In money, in this thing, the social nature of this wealth is incarnated ' (*Capital*, Vol. III, Chap. XXXV, p. 673). The capitalists do not consciously recognise that their wealth is social. A contemporary rich man does not realise that the, say, £500,000 which he owns is not absolute individual wealth at all. He does not admit to himself that the enjoyments, powers and privileges which he gets out of the ownership of this wealth are wholly dependent upon the continued existence and proper functioning of the complex and infinitely interrelated productive system. . . . For when Marx and Engels say that in money the social nature of wealth and exchange-value are incarnated, they mean that money is the embodiment, the incarnation, of socially necessary labour. Money is, then, the fetish, or mystified incarnation, of that common factor in commodities which we isolated as socially necessary labour.

" The capitalists do not recognise all this when they think. They do not know it consciously. They deny that money incarnates socially necessary labour, they try to ignore the social character of wealth. But they do know all this when they act. They know it unconsciously. They know it as a result of frequent and painful experience. This explains the peculiar sanctity with which an objective monetary standard is endowed. This explains the awe in which the gold standard is held. The gold standard is often called a fetish by its capitalist opponents. They are right. It is a fetish. But have they considered the nature of fetishes? Fetishes are not empty idols. They are unconscious, mystified expressions of deep needs. And so it is with the gold standard.

The gold standard is the fetishistic expression of the absolute need of capitalism for an incarnation, an unconscious, automatic and objective expression, of the factor common to all commodities, which alone render them commensurable, viz., socially necessary labour time.

"Moreover the capitalists are perfectly right, from their point of view, to worship their fetish. Once destroy, finally and completely, the objectivity of money and there would remain no nexus between producers. Wealth would lose its social character; commodities would no longer be exchangeable. Capitalist society would dissolve."

I remain convinced that this is the nature of money. If capitalism is essentially a self-regulating system of production, which can be depended upon to maintain rational, or at any rate workable, proportions between the different spheres of production, by penalising with heavy losses any production which destroys these workable proportionalities, then it is a fatal mistake to render wrongly conceived enterprises profitable by means of creating new money. In other words, to cease to use gold as money; to cease to use a substance of intrinsic value, the supply of which can only be increased by the expenditure of certain definite quantities of human labour, weakens in the end fatally the self-regulating mechanism of capitalism. Most obviously it will destroy (it has done so) the balance between the different capitalist economies which together make up (or made up) the world market of capitalism. Less obviously, but none the less in the end surely, such action, by impairing the self-acting mechanism for making readjustments in the proportions between the different speres of production, will lead to an entirely unworkable position within the economy, unless some new mechanism for maintaining rational proportions is evolved.

I still believe all this. I still believe that the ultimate effect of issuing large quantities of new money, if nothing else was done, would be to create a situation in which

"commodities would no longer be exchangeable" [1]; in which "wealth has lost its social character". I have come to believe, however, that these considerations, while indispensable to an understanding of the nature of money (and unless money is understood nothing is understood), are in themselves abstract and general to an extent which tends to make them seriously misleading for practice. In the first place, in highly organised capitalist communities, such as Britain and America, with long, uninterrupted traditions and well-developed methods and facilities for exchange, the loss of objectivity in the currency tends to throw the economy into confusion more slowly and to a smaller extent than I had supposed. In particular, when there exist unused factors of production in every important sphere, it is possible to create new money on a large scale and for a long period without producing any fatal disproportions. Indeed, the dislocations produced appear to be less disturbing than are the dislocations made necessary by the readjustments of the money rewards of the factors of production which are necessary if new money is not created.

Secondly—and this is a still more important point—I have become convinced that it is possible, though very difficult, to introduce conscious controls into the system which will take the place of the automatic self-adjusting mechanism which is, in the end, gravely impaired by the creation of new money. Hence, by the time that the disproportions caused by the creation of new money begin to develop, it will be possible to check, and ultimately cure them by means of social controls specially designed for that purpose. In the second part of this book, dealing with America, we see just how this problem has arisen in practice. We see that so long as the process of re-employing factors of production fallen idle in slump is going on, a system of conscious controls is unnecessary, and when a

[1] This is what happens at the ultimate point of high inflation. Money has ceased to be a means of purchase. Its buying power is sinking so rapidly (which is the same thing as saying that prices are rising so rapidly) that goods and services can no longer be exchanged by means of its mediation.

premature attempt (see page 188) is made to apply such a system, it proves harmful. Equally, however, it is necessary, in the end, to find ways of consciously preserving the vital proportionalities of the economy once you have struck at the roots of the self-adjusting mechanism, by destroying the objectivity of money; by going, that is to say, off the gold standard. These considerations have caused me to change my attitude to attempts to meet the chronic economic stagnation of our times by methods which involve the creation of new money. I have come to believe that such economies as those of Britain and America can best advance towards that complete social control of production which is the sole final remedy for our troubles, along this road. For many political and psychological reasons we can best start the process of bringing our economic system under social control by transforming money from, in Engels' words, "this thing", this objective, unconscious, incarnation of the social nature of wealth, into a first instrument for the conscious control of production. It is perfectly true that this whole line of development is "unsound" from a strictly capitalist point of view, in that, by impairing the system's self-adjusting mechanism, it necessitates (though by no means immediately) an ever-growing degree of social control. Surely, however, that is far from being a reason for objection by those of us who believe that such social controls are indispensable to the development, or indeed the maintenance, of human civilisation?

Finally, I have come to believe that, since this road towards social control can be travelled, it is inevitable that it will be travelled. To drop the analogy, since the economy can be made to work this way, since it is possible to re-employ the factors of production by this method, it *will* be made to work this way. For this is the line of historical least resistance. And whatever may be our individual preferences, our communities will almost certainly find in the end, and by trial and error, how to continue their organised life by the method which involves the least degree of dislocation. When we have said all this,

however, we have left undecided the main issue upon which the hopes and fears of millions of men and women are centred. For, the reanimation of our economies by means of the creation of social controls, starting with the social control of money, can be used either by the reactionary or progressive forces which exist in our communities. And according to which forces are in control, the resulting vast increase of energy will be discharged in the task of raising progressively the standard of life of the population, or will be loosed upon the world in an attempt at violent conquest. In a word, we are here concerned primarily with nothing more than a method for the regeneration of economic and social energy; the values which that energy will serve will depend upon who does the regenerating.

NOTE TO CHAPTER XIV: EXPANSIONISM AND CONTROL

IN THE text we have regarded the judicial murder of the regulatory side of the New Deal with satisfaction. However, as we saw in Part I, any programme for the direct stimulation of consumers' purchasing power requires a large creation of money, and, almost inevitably, a rupture of the convertibility of the currency with gold. This damages the basis of the self-adjusting mechanism by which capitalist production can alone regulate itself.

This is the truth which underlies the conservative opposition to such attempts deliberately to produce recovery as the New Deal typifies. Mr. Hoover's almost incredibly tenacious opposition to doing anything, while for three and a half long years the American economy was sinking under his feet, was based upon this philosophy.

For once convertibility has been ruptured, once new money has been injected into the system (either by the Government, as in America, or by the banks, as in Britain —it makes little difference which); once, in general, an expansionist lend-spend programme has been embarked upon, a first step has been taken away from a self-regulatory system and towards a system which requires the conscious control and direction of production. It is the knowledge, whether instinctive or conscious, of this which, from their own point of view perfectly correctly, causes supporters of unmodified capitalism to avoid an expansionist monetary policy at almost all costs. Equally it is precisely the realisation of this which should cause those of us who believe that the next major step of human evolution is for men to get the productive process under their conscious control, to welcome and support monetary expansion.

But monetary expansion is merely a condition necessary

to the replacement of the violent and painful readjustments of the market by the conscious direction of production. Hence such schemes as N.R.A. and A.A.A. were undoubtedly in a sense a logical development from, and corollary to, the expansionist, lend-spend side of the New Deal. But not only were these two particular schemes ill conceived, and highly objectionable in their restrictive and monopoly-creating aspects, but their introduction at the outset of the New Deal programme was absurdly premature. The truth is that an expansionist, lend-spend programme can be carried on for years, especially if it is initiated at the bottom of a slump, when a large supply of unused factors exists in every sphere of production, without any need for regulatory, directive machinery making itself felt. In such conditions newly created money can be given, or lent, to the population at large, and the productive system will respond to the new pull of demand readily enough, without serious disproportions developing. It is only when full production is approached, when shortages (real or monopoly created) begin to develop in particular spheres of production, when those who control particular key factors are thereby enabled to begin to bid up their price, that the need for general regulation and control begins to make itself felt.

It is doubtful if the recovery produced by the New Deal spending and lending ever reached this point; or, if it did so, it was but momentarily in the autumn of 1936. Therefore the imposition of controls in 1933 was a pure disadvantage for the real task of raising the general level of production. Moreover, such controls were entirely unnecessary, at that stage, in order to prevent disproportions developing out of competitive bidding for scarce factors.

The fact remains, however, that any programme of expansion which was pushed through to the point where full employment was approached would begin to require mechanisms for the regulation and direction of the productive process. (They would probably take the form of the regulation of prices; but he who regulates prices

directs production.) What form should such mechanisms take? Does the experience of N.R.A. and A.A.A. indicate that the whole method of attempting to set up largely self-governing authorities in each sphere of production merely results in the creation of a series of producers' monopolies which will, by their inevitable drive to maximise their own profits, create even worse disproportions than they avert? The reaction of many of the Washington economists and administrators, who were actively concerned in the N.R.A. experience, seems to indicate that this is how they feel. For the sole move of the second Roosevelt administration towards the direct, conscious, regulation of production has been along the exactly antithetical line represented by the so-called Monopoly Investigation. It may be, however, that it will prove necessary for progressive governments in certain circumstances to return to direct methods of price control if tolerably full employment is to be achieved, and still more if it is to be maintained. The obvious danger of playing into the hands of restrictive monopolies, into which the N.R.A. and A.A.A. schemes fell headlong, must not be allowed to inhibit society from using the device of price controls, if and when there appears to be no other way of achieving the indispensable goal of tolerably full production and employment. But such price controls must be genuine controls, imposed by public authority, and not the self-imposed controls of private cartels and monopolies. What form such price controls might best take I do not pretend to be able to say. To a large extent this is music of the future—though perhaps of the immediate future. Such problems can only be worked out when they have presented themselves in a concrete and practical shape, demanding solution. For the moment the supremely urgent question for America is still the simpler one of creating sufficient demand to make possible anything approaching full employment.

Note to Chapter XV: FOUR TYPES OF RECOVERY

Certain generalisations can be made on the basis of the experience of the American recovery of 1933–37.

(1) There can be recovery by means of an initial increase of investment upon producers' goods. This investment will put money into the hands of the workers employed to build these new producers' goods. The workers will spend this money, and so increase spending on consumers' goods. The principle of the multiplier will indicate to us how much increase of spending on consumers' goods a given amount of new investment will cause.

(2) There can be recovery by means of an increase in spending on consumers' goods. When once that increase is large enough to take care of the output which the existing equipment of producers' goods can conveniently provide (in even a few lines of production), there will result an increase of investment in order to provide new plant and equipment with which to meet the still-increasing demand for consumers' goods. The economists have invented another principle to indicate how much of an increase of spending on consumers' goods will cause how much of an increase in investment on producers' goods. They call this the "acceleration principle". For some time a recovery engendered by increasing demand for consumers' goods is apt to have little success in increasing investment. So long as existing capacities are ample to take care of the rising output of consumers' goods, the entrepreneurs feel little impulse to extend or re-equip their plants. But then, usually somewhat abruptly, the demand for consumers' goods begins to exceed, in certain lines of production, the output which can be comfortably provided by the

existing plant. At once a demand for new producers' goods arises. Investment begins. This investment itself sets up a demand for further consumers' goods, which in turn encourages further investment, and so on. Many economists profess alarm at the possibility of this self-accelerating reaction. They feel that demand in both departments of production may soon come to exceed supply. Full employment will be reached and still demand will grow. A rising price level, a generally inflationary movement, will result. Hitherto, however, the most marked characteristic of the acceleration principle has been its failure to accelerate. The disaster into which the American consumer-generated recovery fell was not that of passing the critical point of full employment and becoming inflationary, but of petering out before full employment was reached. (And this was precisely because those in charge, fearing an inflationary flare-up, withdrew the initial stimulus of increasing consumers' money-demand.)

We can now subdivide each of these two kinds of recovery. We then get:

(1*a*) This is a recovery stimulated by investment on producers' goods undertaken by the Government (*i.e.*, public works). To an appreciable extent the 1933–37 recovery partook of this character, for some, though by no means the major part, of the Government's lending and spending took the form of the creation of public works rather than direct distributions of money to the ultimate consumers, by way of relief or the various payments to farmers.

(1*b*) This is a recovery stimulated by investment on producers' goods undertaken by private entrepreneurs, whether corporate or individual. This is the orthodox, familiar type of recovery of the nineteenth century. Most conservative authorities believe that it alone is sound. Two characteristics of this type of recovery should be noted. First, the only object which, in the nature of things, either corporate or individual entrepreneurs can have in mind, if and when they increase their investment-

expenditures, is the maximisation of their future profits. Therefore a recovery cannot be initiated in this way unless entrepreneurs, as a class, believe that an extension and re-equipment of their plants, a new building programme, etc., will be profitable to them. Second, it is usually an illusion to suppose that this type of investment, as distinct from government investment, does not create debt. The entrepreneurs will borrow from the banks, or from the public, in just the same way as has the American Government, and thus cause the banks to create new money. This point is qualified, however, in conditions in which the entrepreneurs are holding large idle deposits with the banks. They may use these resources for a part of their investment, and only borrow the remainder from the banks.

(2*a*) This is a recovery stimulated by spending on consumers' goods engendered by a government's distribution of new money to the ultimate consumers by way of relief payments, farmers' benefits, veterans' bonuses, old age pensions, or what have you. The 1933-37 recovery was predominantly of this kind.

(2*b*) This is a recovery stimulated by spending on consumers' goods engendered by a distribution of money to the public on the part of individual, or corporate, private entrepreneurs. But what motive, or possibility, can private individuals or corporations have for distributing such money? They can have none—such distributions could never be profitable. In other words, this kind of recovery cannot, and does not, exist. There is no such thing as (2*b*).

From this we reach the conclusion that capitalism as such, unsupplemented by government action, can only distribute additional purchasing power to the ultimate consumers via an increased investment on producers' goods. And the entrepreneurs will not, and cannot, undertake an increase of investment unless they suppose that they will reap a profit from so doing. Under undiluted capitalism, under the sort of capitalism which Mr. Hoover tried so hard to maintain, there is no way to increase

the amount of money in the pockets of the people until and unless the entrepreneurs feel that a new wave of investment will be profitable. We must notice that it is possible to increase the purchasing power—as distinct from the money—of those workers who remain in employment in such conditions, since prices will be dropping. But, as we saw, this increase in real wages appears to be more than offset nowadays by the towering rise in unemployment during the deflationary process. That is one reason why recovery is so difficult.

All this may throw light on a psychological curiosity which few can have escaped observing in contemporary America. All conservative authorities unite in declaring that any recovery initiated by, and based upon, an increased demand for consumers' goods is a poor, weak, transitory, and unsound thing, when compared to a recovery based upon increased investment upon producers' goods. At a first hearing no opinion could seem more paradoxical. Surely there can be no doubt that the sound, broadly based, enduring procedure is first to increase the outlet for the final products of industry—namely, consumers' goods and services—before beginning to increase the quantity of producers' goods, or means of production, of which there appears to be a plethora in existence already? Surely there can be no doubt that the risky, speculative, narrowly based way of doing things is to go out and build a whole new outfit of means of production, in the hope that the act of building them will create a sufficient demand for their products to make their operation practicable when they have been built? After all, the consumption of the necessaries and conveniences of life should, surely, be the sole final aim of the whole economy. The production of new means of production should be a mere means to that end. Is it not far more logical, far sounder, to base recovery on an increased demand for these ultimate products, and to regard the increased demand for means of production which will, as we have seen, appear, as a mere by-product, rather than, vice versa, to base recovery on increasing the supply of means

of production, trusting that an increased demand for consumers' goods will arise, as no doubt it will, as a by-product?

It may be, and is constantly, objected that recovery through investment in producers' goods is the old, tried, and trusted method; that any other method must lead to relapse after a short and deceptive recovery. To which the short answer is that the old, tried, and trusted method has itself always led to relapse. Moreover, it has led to a relapse of which the basic cause was the population's lack of ability to buy and consume the current output of consumers' goods at profitable prices. Is there not something to be said, then, for trying out an alternative method of recovery, since the established one has never led to permanent economic health? Is there not something to be said in particular for trying a method which tackles, at any rate, what seems to be the basic cause of relapse?

Once again, however, we shall find that, on closer inspection, the conservative opposition is not based on simple intellectual error. There are real and substantial grounds, from the point of view of a supporter of unmodified capitalism, for objecting to a recovery brought about by stimulating demand for consumers' goods, even though those objections are of an unspoken and often unconscious kind. The real objection, from the point of view of those who want to maintain permanently a purely self-regulating capitalism, is that demand cannot be stimulated at the consumers' end, except by government intervention. As we have seen, the individual and corporate entrepreneurs simply cannot get money into the hands of the people except by employing them upon making new producers' goods, or, in certain circumstances, very durable consumers' goods, such as houses, which will then be sold, or let, on long-term credit. For the Government alone is in a position to lay out money without hope of a directly profitable return. I have no doubt that this is the, usually quite unconscious, consideration at the back of the minds of those who so

strenuously oppose as unsound the stimulation of demand for consumers' goods. For unmodified, self-acting, self-adjusting capitalism cannot do it. Therefore doing it involves conscious and planned intervention, from outside the system, as it were. Moreover, it involves intervention, primarily intended not to maximise profit (though it may, as a matter of fact do so), but to make possible the use of society's productive capacities for the satisfaction of human wants. Finally, like the other monetary measures of which it is in fact a part, it tends to impair, in the end seriously, the self-adjusting mechanism of the system. But it is unsound in this sense alone. From the point of view of those who desire to see the economy progressively modified in such a way that production is so directed and stimulated that it can increasingly dispense with some aspects of the self-adjusting mechanism, a recovery initiated by, and fed upon, the stimulation of the demand for consumers' goods and services, by distributions of money to the mass of the population, is an incomparably sounder thing than the old type of recovery could ever hope to be.

Note to Chapter XVIII: A TAX ON DEMAND DEPOSITS

There is a method by means of which an expansionist programme could be implemented without the creation of new money. This is the proposal to establish a negative rate of interest on demand bank deposits. Mr. Arthur Dahlberg, in his recent book entitled *When Capital Goes on Strike*, puts forward the proposal that the Government should impose a tax on demand deposits left lying in banks. Mr. Dahlberg believes that the volume of this more or less stagnant money would drop rapidly if it were so taxed. The first effect would no doubt be to drive the demand deposits into time deposits. But as this happened the bankers would find it necessary first to lower, and then to abolish the interest which they paid on such deposits. Finally, perhaps, the bankers themselves would have to impose a charge for holding them. So the general effect of the tax would be greatly to decrease the advantages of holding money in a bank, relative to investing it. By this device, Mr. Dahlberg believes, wealthy individuals and corporations would be driven to invest their money as quickly as they received it. It would be too expensive for them to attempt to hold it idle, and so diminish their future incomes by this amount. The expectation of even the most modest rate of profit would be more attractive than having to pay for keeping their money idle. Thus investment would be driven up to a volume sufficient to keep the economy in full employment. Nor would there be any need for government spending, or lending, or for other forms of government intervention.

It would, Mr. Dahlberg believes, be necessary to place at least an equivalent tax on idle currency, or at any rate to take power to do so, and to use this power if the currency in circulation began to rise sharply. For if this precaution were neglected, a really determined hoarder might keep his

money in, say, thousand-dollar bills in a strong box. This is, substantially a modernised and much-improved version of the proposals of the German currency reformer, Silvio Gesell, whose suggestion took the form of stamped money. Mr. Dahlberg first put forward his views (in the above-mentioned book) in a most Utopian manner. His book seemed to carry the implication that this proposal was a magic panacea which would certainly and by itself suffice to cure almost all the ills of humanity. (Moreover, he presented a repulsively complex plan for taxing the currency notes in circulation.) This unfortunate presentation did much, I fear, to prevent serious consideration being devoted to this idea as a part of a general progressive policy. A tax on bank deposits, or the establishment of a negative rate of interest on resources held idle in this form, should, however, be seriously considered as a part of a policy for securing, and even more perhaps for maintaining, full employment. Like all other measures, it would surely prove to have its own disadvantages and its own advantages. Whether or not the former outweighed the latter would very likely depend on the particular circumstances in which the proposal was applied. But there is nothing either fantastic or unsound about the proposal itself.

Its main advantage is that it provides a method by which the recipients and holders of liquid money can be prodded, instead of tempted, into activity. And this is an extremely important advantage. For the only thing which will tempt the holders of money to invest is to raise, in one way or another, their expectation of profit. And to do this involves (with the exceptions described in this book) taking measures which tend to decrease the share in the total product going to the wage-earner—which tend, that is to say, to increase the maldistribution of wealth, and so to produce slump by an insufficiency of purchasing power in the hands of the people to clear the market of consumers' goods and services.

Another feature of the Dahlberg proposal which many people would no doubt feel was an advantage is that it avoids any increase in government initiative or participation

within the economy. As against government spending and lending, and as against government banking, a tax on deposits is undoubtedly an individualistic measure, since it seeks to activate the economy by pushing private initiative into action again, instead of by substituting public initiative, in any degree for it. (Mr. Dahlberg is himself anti-socialistic in bent.) A tax on demand deposits even avoids the bugbear of a progressively increasing national debt. Indeed, it could be plausibly argued that in contemporary American conditions it was just about the one tax which might really result in balancing the Budget!

All the same, and in spite of these genuinely conservative features, a tax on bank deposits would almost certainly be strongly resented by the wealth-owning class. The idea of pushing holders of money to invest, instead of tempting them deferentially, is so novel that it might well be thought much more radical than it really is. In certain circumstances it might cause serious dislocations in the economy. In particular it seems probable that this is not a suitable measure for application at the bottom of a slump—as, for example, in 1933. At such a moment as that, when there genuinely did not appear to be any, or scarcely any, even remotely profitable opportunities of investment, the investors might well have been still further discouraged by a tax on deposits. They might have reacted simply by bearing the tax in passive misery rather than by investing any of their deposits. In such a situation the creation of additional demand by government expenditure in excess of receipts, coupled with vigorous action to reduce the rate of interest, seems much more appropriate.

On the other hand, the case for a tax on demand deposits during a period of growing, but still incomplete, recovery seems much stronger. If, in 1935, for example, the American Government had imposed such a tax instead of its undistributed profits tax, substantial advantages might well have appeared. The undistributed profits tax appears to have been a misconceived measure. For there is nothing wrong with the habit of corporations by which they retain a substantial portion of their profits instead of

distributing them to their shareholders, *provided that they invest this undistributed portion.* It appears to me that the complaints of business men that the undistributed profits tax acted as an obstacle to this form of investment may have had a measure of justification. In any case what was wanted was not a tax on undistributed profits, but a tax on *idle* profits. It is *idle* profits, whether they are held undistributed by the corporations which make them or are held idle after distribution to stock holders—it is profits held idle as bank deposits, which should be taxed in order to force them into investment. Similarly there is a real case for making tax concession to either corporations or individuals who will promptly reinvest their profits, and it does not matter so much whether they do so before or after they are distributed as dividends. It may well be that at such a time as 1935, when genuine opportunities for investment undoubtedly existed, but when investors, either from political or other motives, were hesitating, a moderate tax on idle money would have pushed them into action. If so, the advantages would clearly have been very great. In any case the proposal, if—though only if—it is clearly understood to be merely one measure, to be applied at a suitable moment, in a general progressive programme, should, surely, receive more serious consideration than it has yet been given.

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